★ MARKET CHANGES ITS MIND — TEMPORARILY ★

The MAGAZINE of WALL STREET

and BUSINESS ANALYST

JUNE 26, 1954 85 CENTS

Appraisal of 1954 Outlook for Natural Gas Industry

Part 11 In Our Series:

WHICH STOCKS – WHICH INDUSTRIES

SPECIAL STUDIES OF MAJOR INDUSTRIES

Current Position and Outlook for

THE MARKET'S 36 LEADING STOCKS

By WARD GATES

★

MASSIVE ECONOMIC EFFECTS OF ST. LAWRENCE SEAWAY

By McLELLAN SMITH

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STOCKS WITH DECLINING DIVIDEND MARGINS

By J. C. CLIFFORD

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Member of Audit Bureau of Circulations

Vol. 94, No. 7 June 26, 1954

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Cover Photo by Texas Illinois Natural Gas Pipe Lines

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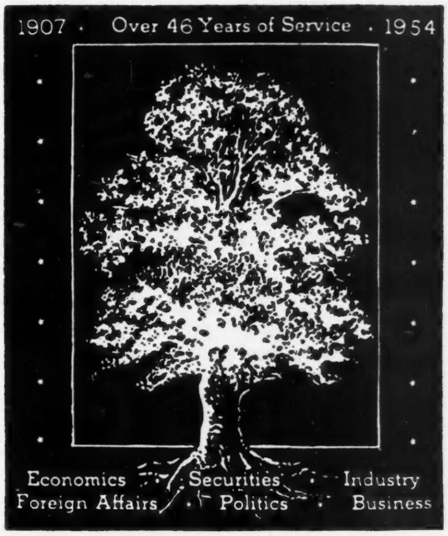
TO CHANGE ADDRESS — Write us your name and old address in full, new address in full and get notice to us three weeks before you desire magazine sent to your new address.

EUROPEAN REPRESENTATIVES — International News Co., Ltd., Breams Bldg., London E. C. 4 England.

Cable Address — Tickerpub

THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Editor-Publisher*



The Trend of Events

REVOLT IN GUATEMALA . . . What we now have in Guatemala is much more than the customary struggle for power between two contending factions in Latin American countries that has been so familiar to the United States. This is the commencement of a deadly struggle, for the first time on American soil, between the free world and the communist world. The infection does not exist in Guatemala alone though it has extended more widely there than in other Latin American countries. South of the Rio Grande, there are large groups of determined men who have long since pledged their allegiance to the Kremlin. Thus, the beginnings of a mortal danger have already become quite visible.

The United States cannot afford to sit idly by while communist penetration increases among our neighbors. We have the means, through the various arrangements we have made with Latin American countries, to effectively stamp down this latest threat, without incurring the onus of direct intervention. This is our duty as leader of the free world and we should not shrink from it.

MORE THAN TAX REVISION NEEDED . . . The general approach of both House and Senate to the basic objectives of the omnibus tax bill now nearing completion indicates that the chief emphasis is on the adjustment of specific items, especially the elimination of the inequities which have crept into tax legislation since Wilson's time, and which were long overdue for revision. Basic reformation of the tax structure is not now intended and, therefore, will not be achieved.

While tax relief to individual taxpayers and to the business community will be welcomed, from the overall national point of view much remains to be accomplished before the financial structure of the government can be rendered reasonably invulnerable. What is wrong is a) too much of the national output is absorbed by taxes and b) too much of the budget is dependent on income tax sources.

At present, approximately 21% of the gross national product is consumed by the federal budget. How great a figure this is may be seen from the fact that in 1940, the budget took only 10% of the national output in goods and services and, in 1930, only 3%. Obviously, the current high proportion of budget to national product will remain with us as long as appropriations must remain high. We may as well face the fact that with international tension as high as it is and is likely to be cuts in the budget cannot be very large. Hence, the prospect for an exceedingly high ratio of federal budget to the national output will remain with us for some years to come.

While not much improvement, therefore, can be expected by way of a lower budget, there is room for improvement in the present composition of the tax structure. Too high a proportion of the government revenue is now obtained from income taxes.

We recommend to the attention of our readers the analytical discussion of business trends contained in our column "What's Ahead for Business?" This regular feature represents a valuable market analysis of importance to investors as well as to business men. To keep informed of the forces that may shape tomorrow's markets, don't miss it!

BUSINESS, FINANCIAL *and* INVESTMENT COUNSELLORS : : 1907—*"Over Forty-six Years of Service"*—1954

This figure should be reduced in favor of excise taxes. It is useful to bear in mind that the proportion of excise taxes to the total revenue has been shrinking for years at the same time that the proportion of income taxes has been sharply rising. It is not safe for the government to be so dependent on income taxes. In a prolonged recession government income would be quite susceptible to a shrinkage in its revenue base. By switching, in part, to excise taxes, the base of government revenues would be greatly enlarged. Furthermore, a reduction in income taxes in favor of a higher proportion of excise taxes would do much to raise business incentive. While it is too late this year for the needed reforms to be affected, it is to be hoped that next year the entire tax problem will be met in a more realistic manner by Congress.

ATOMIC POWER AND THE UTILITIES . . . At the twenty-second annual convention of the Edison Electric Institute, practical men of affairs proclaimed that the day is rapidly approaching when the electric power industry in the United States will be using at least some electricity generated from atomic fuel. Many industrial leaders who had believed not so long ago that the day of atomic power for industrial use was many decades off have now changed their minds and, in fact, are making active preparations to enter the new field in the not too-distant future. All that remains in the way is the amendment of the Atomic Energy Act needed to facilitate the entrance of private industry into the field. Once this is accomplished, the other stumbling block, finances, will take care of itself as there can be no doubt that the full financial resources of private industry can ultimately be tapped for this monumental project. We may say truthfully that, as with the automobile and the airplane, a new industry—atomic energy—is on the verge of revolutionizing our entire industrial process.

ECONOMIC GROWTH FOR FREEDOM . . . Addressing the I.L.O. recently in Geneva, a plain American business man uttered some truths about the American system of which few foreigners seem to have real knowledge and which, to be candid, not enough Americans understand, either. He stated the simple proposition that it is not American wealth which has created the type of a free economy which is enjoyed in this country but the reverse—that it is the American system which has created our wealth. An illustration was offered which all can understand: We have television, not because we are rich, but we are rich because we have (developed) television.

In other words, because we have been free to experiment and accept the hazards of new ideas and new processes; because we have not hesitated to take financial risks in the development of new products and manufacturing and sales techniques; because we have not attempted to seal ourselves off through cartels and other artificial forms of protection; because we have developed the principle of competition on a scale far beyond that existing in any other nation on earth, we have created a true economic revolution without sacrificing our liberties. When we have, from time to time, owing to political necessity, seemed to follow the false road of severe government control, we have abandoned it as soon as possible. Fundamentally, we have never lost sight of the fact that America means freedom, even though we may seem to have temporarily forgotten this concept at various stages in our history.

Basically, the revolution which has silently been developing in this country has been the result of the constant and persistent effort of the business community to give the people products that they need and want at prices they can afford. The growth of our industry has depended entirely on the unfolding of this process. This makes for a self-adjusting and flexible economy offering a firm base for the nation's continued progress.

This is quite a different picture of American business than is normally drawn by foreigners. Their concept of us, assiduously aided by communist propaganda, is that American business is rapacious, reactionary and exploitive, acting solely for profit. We submit that a system which can make the necessities and many of the comforts of life available to a constantly broadening public, and by which poverty is steadily being eliminated, is the only valid system by which nations can live in security.

In the many nations of the world which have had the same opportunities as America and which have not taken advantage of them, the possibilities for advancement have always existed notwithstanding. If only these nations would take a leaf from our book, and we say this in all humility, they could enter a period of well-being never before known in their history. If they would only apply this creed and abandon their restrictive practices, they would not need be so envious of us.

AN UNWISE BUREAUCRATIC MOVE . . . The Interstate Commerce Commission has announced that it has ordered the railroads to delay for seven months their plan to haul loaded trailer trucks on flat cars, the so-called "piggy-back" method. This new method of hauling freight over the rails is considered one of the most important steps taken in recent years by the railroads to counteract the massive competition of the motor carrier groups. Much had been expected of it and, in fact, a number of roads have already announced plans and established operating procedures to effectively employ the new sysem.

For years, the railroads have been burdened by the increasing competition of highway freight transported by the gigantic vans so familiar along the highways. They are also struggling against increasing airline freight transport.

It would seem that every encouragement should have been given the roads in their strenuous efforts to give more modern service and, at the same time, improve their cost position. Under the circumstances, the adverse decision of the I.C.C. should be considered a step backwards. The Commission has the duty, not only of regulating the carriers in the public interest, but the broader function of aiding them to attain a stronger economic position so that they can better supply the needs of the nation. A broader concept of its duties would impel the Commission to do everything in its power to encourage those in the railroad industry who have taken a progressive attitude instead of obstructing them. The Commission should, therefore, make amends and rescind its order forthwith.

As I See It!

By E. D. KING

MR. CHURCHILL TAKES ANOTHER TRIP

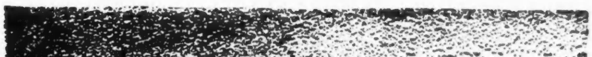
On June 25, at the invitation of President Eisenhower, Winston Churchill and his Foreign Secretary, Mr. Eden, will fly to Washington for what is euphemistically called "an exchange of views", presumably with the intent of trying to cement at least some of the cracks in the tottering structure of British-American relations. Yet it is by no means an accident that several days after the announcement of the coming visit, The Peiping government, with the wholehearted approval of the British Foreign Office, set in train important moves which will lead to full diplomatic relations between Britain and Red China.

The sequence is unfortunate, and if one could hazard a guess, it is probably true that if our State Department had been informed in advance of the impending negotiations between Peiping and London, the invitation of the President would not have been extended. Certainly it is true, in view of our basic hostility to the Red Chinese regime, that we must strongly disapprove any efforts by the British which would fully formalize a Great Power status for the Chinese.

The ambivalent attitude of the British government which is so clearly illustrated by the events alluded to have been characteristic of British diplomacy ever since the Chinese revolution which saw the communists victorious. Whether it is because London wishes to maintain British prestige in the Commonwealth, or because the Foreign Office is guided mainly by trade and financial considerations, the consequence has been that the British government, in effect, has been exercising a veto over American policy.

This has been extremely harmful to American interests and has played a great part in weakening the Western alliance. For this we have British policy to thank. Ironically, this policy has not brought the fruits which Downing Street expected. Australia, New Zealand and Canada are deeply troubled because they realize that the United States is the strongest shield for the free world and that this shield is being struck down because of the weakness of British policy.

THE TWAIN SHALL MEET AFTER ALL



—Morris in the Rochester Democrat and Chronicle

The coming visit of the aging Churchill – whom we all admire as a symbol of British patriotism and resistance to fascism – nevertheless cannot augur for material success as long as the British government gives evidence that it is largely influenced by the neutralist stand of Nehru and by the increasing dominance in the Labour party of its more radical elements. Even Mr. Atlee, who has hitherto taken a moderate stand, is now about to visit Peiping, together with other influential Labour leaders, to cement trade relations between that government and the British. What are Americans to think of these procedings which evince a rising amity between the British government and our bitter enemy, the Chinese communist government?

One cannot but commiserate with President Eisenhower who must feel himself badly let down by his old friend? No doubt, his invitation to Mr. Churchill was forced on him by the realization that British errors have become chronic and that the world position of the United States can be ruined if we continue to permit London to shackle us. Certainly we should be frank to acknowledge that, in effect, we have been used by the British. Nor should we be unmindful that the British Prime Minister, in his talks with the President, will not hesitate to press for lower tariffs and some form of aid in establishing convertibility, all to the end of furthering British (*Please turn to Page* 432)

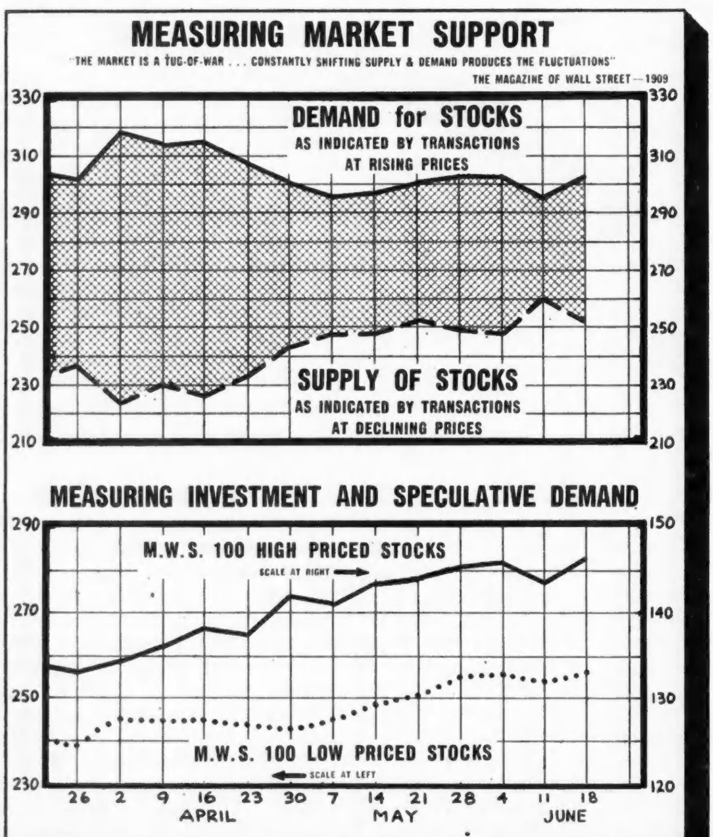
Market Changes Its Mind—Temporarily

The market had a sharp spill in the initial trading sessions of the last fortnight, followed by a sharp rebound. The latter left the industrial average close to its prior high, rails at a new 1954 high. Prospects are still uncertain, with possible change in defense spending a key question. No change in our policy is called for.

By A. T. MILLER

We commented here two weeks ago on various indications of "tiredness" in the stock market after some eight and a half months of selective advance, paced largely on blue-chip and other better-grade stocks subject to institutional demand. As it turned out, that interpretation was written on the eve of the sharpest sell-off in the industrial list since the break touched off by the start of the Korean war late in June of 1950.

The great bulk of the damage done to stock prices was concentrated in the trading sessions of June 8 and 9. From the June 1 intraday high of 329.48, the Dow industrial average had a maximum decline by June 9 of 13.82 points, which cancelled 18.4%, or nearly a fifth, of the total prior rise from the lowest level of last September. On the same basis of intraday highs and lows, the rail average gave up about 17% of its prior rise; while utilities cancelled some 15% of their total gain from a low made as far back as June, 1953.



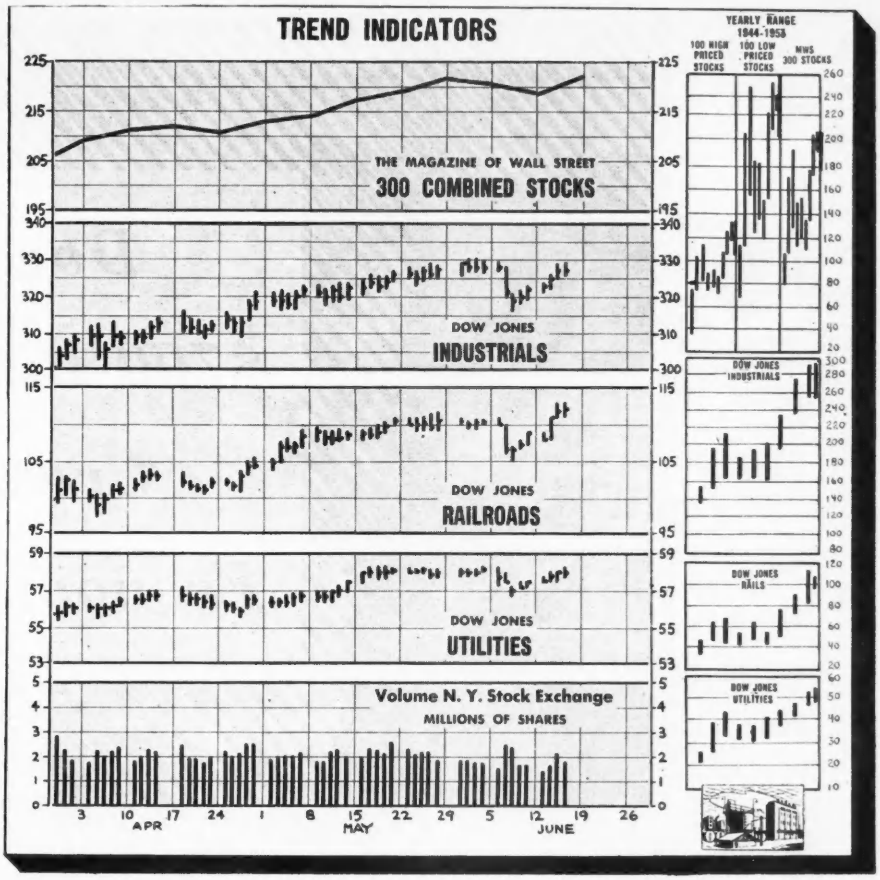
Technical Adjustment

It is apparent that the sell-off was only corrective, severe for a brief time because of the thinness of the market, whereas it takes a major news shock or a general shift of investment sentiment from hope to fear or doubt to cause a downswing of some duration. The fact that the reaction dried up quickly, without feeding on itself, can be credited to selective investment domination of the long prior rise and the absence of any great speculative excess, as indicated by the insignificant total of brokers loans and failure of large numbers of secondary stocks to participate to any great extent, if any, in the rise, the story of which is incompletely and imperfectly told by the Dow industrial average.

The average investor is still evidently more inclined to hold or buy stocks than to sell; some types of institutional demand are always present; and there was a sizable short position in the market capable of creating some demand on a break. For all of these reasons, rather than any news factor, there was a sharp rebound in stock prices, starting from the June 9 low, with the bulk of it maintained up to this writing, although indications of increasing upside resistance were apparent late last week. Thus, the market seems to be blowing hot and cold.

The rail average not only rebounded but reached a new high for the year, thus extending the recovery phase begun last September. Its prior closing high of May 28 was 110.60. This was extended to 112.20 at last week's best level. Recovery by the industrial average fell slightly short of its June 1 high on a closing-price basis, but duplicated the June 1 high on comparison of best intraday prices. Utilities made up all but a small fraction of their sell-off.

A strong performance by rails, accompanied also by a good rally in the aircraft group, would seem to suggest something of a "war-baby" flavor in the market. That might be so to some extent, but qualifications are in order. The rise in rails centered mainly in a handful of the better-grade and mostly higher-priced dividend payers whereas a significant "war-baby" speculation in rails would not be nearly so selective. As regards aircrafts, they have been a popular group for some time, on the basis of heavy order backlogs and prospects of good earnings for quite some distance ahead.



Moreover, it should be noted that, at best recovery levels to date, all of the leading aircraft stocks remained somewhat below their earlier highs. The same is so of the majority of popular growth stocks and/or blue chips, which did so much to keep the advance rolling in prior months. Measuring current levels against previous 1954 highs, groups showing exceptional strength in recent days prior to this writing include air lines, aluminum, auto trucks, electrical equipments, paper, radio-TV stocks, bank stocks, steel and tires. The "war-baby" tinge to this list is not a very strong one, especially when you consider that a number of these groups had been in the vanguard of market advance before there was much conjecture about what the U. S. might or might not do about Indo-China. The list of blue-chip and semi-blue-chip stocks thus far to better previous highs on this rebound is not a very long one. It includes Borden, Colgate Palmolive, Federated Department Stores, General Electric, Container Corp., Thompson Products, General Food, and May Department Stores.

New or fresh influences shaping investment sentiment are either not dynamic or are open to some question. One is a material improvement in the bond market, following a pause and minor recession of some duration. The betterment stems from correction of recent indigestion in the new-issues market, which was caused by a too heavy concentration of flotations; and from the continuing easy-money policy of the Federal Reserve and the Treasury.

Another is a slight recent upturn in the seasonally-adjusted index of industrial production and the hope that this will go further. The hope that it will go further, and that the low point of recession was put behind in April rests on: (1) the fact that there has been a minor upturn after several months of flattening-out tendencies in the downtrend; (2) optimistic statements and "forecasts" by various officials, business men and economists; and (3) some opinion or guessing, with nothing official to go on, that defense spending might be boosted to back up the objective of deterring further Communist agression in southeast Asia on some kind of collective-action basis, even though U. S. military intervention in Indo-China has apparently been ruled out.

This question of Federal spending, as determined by foreign policy, is a key one. The last official word was still that the Administration plans to cut total spending by about $5 billion in the fiscal year starting July 1, "foreign events permitting." If it does so, the chance of a second-half business revival of significance would be more limited, in view of business pressure to cut inventories, the beginnings of some shrinkage in plant-equipment outlays, lagging demand for automobiles, etc. On the other hand, announcement of any important boost in defense spending would result in a prompt inflationary shift in general inventory policy, and in a considerable stimulation of consumer spending. The possibility of such a change as a major new business and market factor, will require close watching.

The chances of any important extension of the market rise are not too clear. The technical evidence bearing thereon is currently inconclusive. On a realistic basis of appraisal, the market is quite removed from the bargain counter. If not at an extreme level, it is certainly at a medium-high one in terms of average yields of better-grade stocks and their spread over bond yields. We suggest that you continue to follow a conservative, selective policy. —Monday, June 21.

Does Our $700 Billion Debt Create An Economic Threat?

By

HAROLD DuBOIS

The apparent necessity for the Federal Government to raise its statutory debt limit from the present $275 billion to $290 billion, in order to finance its fiscal 1955 spending program, has cast the spotlight again on the total debt position of the United States economy. How big is the sum of the public and private debts? How rapidly have they grown in the postwar period? How much of a threat are they to the stability and growth of the business system? How do debts compare with the income streams out of which the debt must be serviced and, in some cases, eventually repaid?

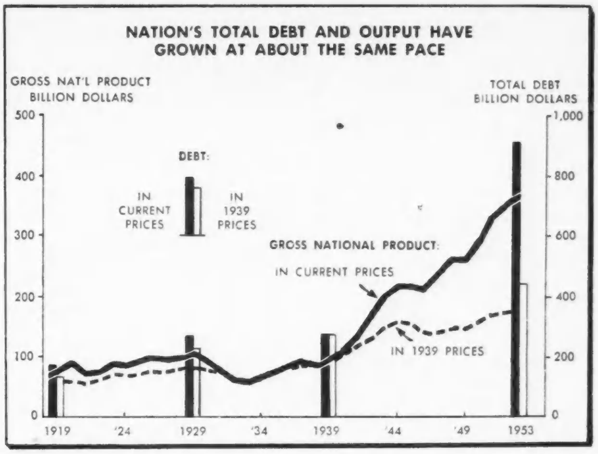
Any discussion of debt—both public and private debt—must wind its way among a number of logical pitfalls. It is the conclusion of this article, to anticipate somewhat, that the total debt position—the current level of aggregate debt—is not a source of immediate concern, although the *rate of growth* of debt in the postwar years has been excessively rapid. This does not imply that the present size of the federal debt is good or bad, moral or immoral, but merely that under present conditions the debt is not dragging the economy down to destruction. Similarly, much of the total debt, both public and private, is of a guaranteed nature. Failure to meet the obligation by the borrower will find the lender still protected. Finally, it is worth noting that for every dollar of debt, there is an asset in the form of a dollar claim—government bonds, for example, or the mortgages held by banks and individuals, or the corporate bonds held by individuals, trusts and estates. The debt total is thus paralleled by an asset-claim total, and while this does not mean that under any circumstances debts cannot get dangerously high, it does suggest that merely quoting an aggregate debt figure can lead to false conclusions about the threat which the debt structure poses to the business system. Because of these complexities, the real picture of debt emerges only when it is broken down in some detail, and related to the income and asset positions of the debtors.

How Big is the Debt?

A gross total debt for the United States as a whole—including individual, corporate and governmental—can be calculated in any of several ways, with results anywhere between $500 billion and $1,000 billion. The variations arise because of differences in the extent to which debt positions are consolidated (for example, whether corporate bonds held by other corporations are treated as part of net corporate debt) or the degree to which the debts of financial intermediaries — banks, insurance companies, etc.—are netted out as merely duplication. On a gross basis, the Federal Reserve Bank of Chicago has recently computed current total debt at over $900 billion. For purposes of analysis of the components, a somewhat more restricted definition is used here, which yields a total debt figure—both public and private—of approximately $690 billion. Of this amount, about $325 billion is the public debt of the federal, state and local governments, and the remainder—$365 billion—is the private debt of cor-

porations, unincorporated businesses (including farms), and individuals.

This aggregate figure is about $3\frac{1}{2}$ times as great as in 1929, and is also $3\frac{1}{2}$ times as great as in 1940. It is about 50% greater than the total debt in 1945. However, it should be noted that relative to 1929 and 1940, total economic activity has grown slightly more rapidly than the aggregate debt; gross national product—the total output of goods and services—is now about 3.6 times its level of 1929 and 1940. In contrast, since 1945 the growth of debt has slightly outpaced the growth in economic activity. It should also be noted that interest rates—which of course determine the total carrying charge on the total debt—are now considerably lower than in 1929 and 1940, so that relative to total activity the burden of the debt is substantially lower than in either of those years. Relative to 1945, interest rates are now somewhat higher, however, and it is safe to assume that the carrying charge on current debt is considerably higher, relative to total national income, than it was at the end of World War II.



Public versus Private Debt

The lumping of public and private debt into an aggregate debt figure, for a number of reasons, is necessarily an imprecise practice. Insofar as federal debt is concerned (and this constitutes the bulk of public debt in this country) the volume of debt is, in a real sense, no more than a segment of the nation's money supply. It is backed by the full faith and credit of the federal government, and the government's borrowing power assures that no maturing obligation will ever go unpaid. The dreaded business cycle phenomenon of rapidly contracting credit, as obligations go unpaid and lenders grow excessively cautious, does not apply to the public component of the debt.

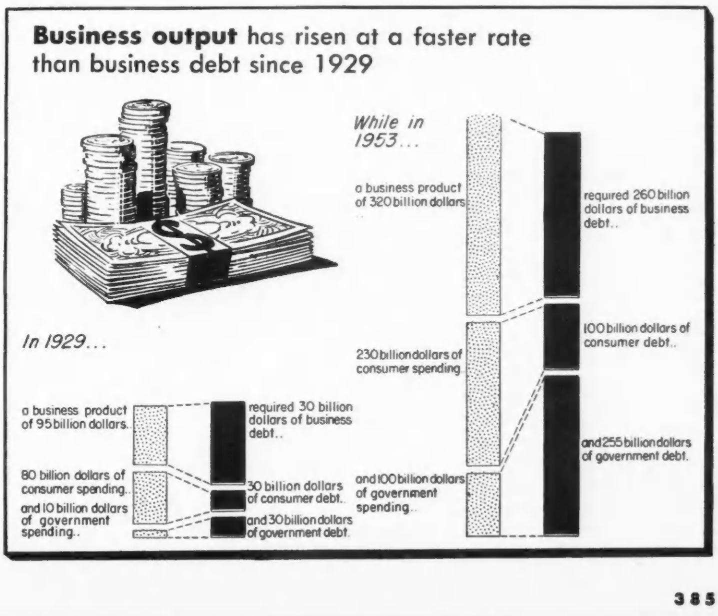
It is therefore relevant to observe that whereas public debt constituted about one-seventh of total debt in 1929, it now accounts for almost half of the debt. Moreover, whereas federal debt accounted for about half of all public debt in 1929, it now accounts for about nine tenths. Conversely, private debt, while it has roughly doubled since 1929, has shrunk from about six sevenths of all debt to about half.

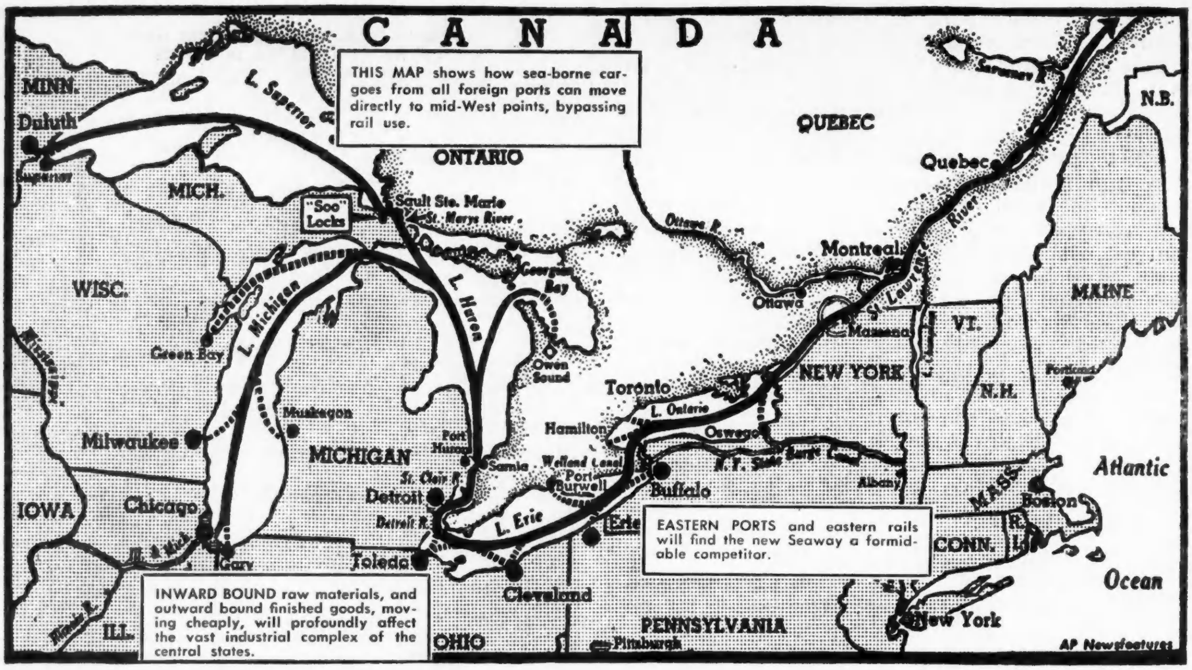
This rapid change in the public-versus-private character of the debt structure arose as the result of the prolonged depression of the 1930's, and then the federal financial burdens of World War II. Between 1929 and 1940, total debt was about unchanged. But private debt, reacting to the viciously depressed character of private business activity during much of the 1930's, actually contracted about 20%, while relief and pump-priming activities of the federal government (and to a lesser extent state and local governments) raised public debt about 60%. Between 1940 and 1945, private debt remained virtually unchanged, while the public debt increased fivefold. This increase was attributable entirely to borrowing on the part of the federal government; spending, and hence borrowing, by state and local governments was hindered by shortages of labor and materials. The federal debt alone increased about sevenfold from 1940 to 1945.

Since 1945, the trend of the composition of aggregate debt has been undergoing a broad reversal. *Public debt has grown very little; within the public sector, federal debt has been about unchanged, while state and local debt has been rising at an accelerated pace. Private debt has soared dramatically.* In the nine years since the end of the war, corporate debt has more than doubled; individual debt has about tripled. Nevertheless, a further growth amounting to another fivefold increase would be required if total private debt were to return to the same relation to public debt which prevailed in 1929, and it would take a doubling of private debt to restore public-private proportion of 1940. In this sense, and despite the enormous increase in private debt in recent years, the total debt structure is still dominated by public debt, and, within public debt, by the enormous obligation of the Federal government.

Who Owes it All?

Of the \$690 billion debt total estimated for mid-1954, the Federal government is responsible for about \$290 billion—\$275 (*Please turn to page* 422)





MASSIVE ECONOMIC EFFECTS OF ST. LAWRENCE SEAWAY

By McLELLAN SMITH

After two decades of frustration, punctuated by intermittent and often heated Congressional debate, the St. Lawrence Seaway, which will directly link the Great Lakes with the Atlantic Ocean and the sea lanes of the world, is to become a reality under the joint sponsorship and financing of the United States and Canada. Recent enactment of legislation necessary to our participation in the project was the first major accomplishment in the Eisenhower "dynamic" program.

Over the years, Seaway proponents have painted glowing pictures of its economic advantages, while opponents have vigorously prophesied dire consequences to large segments of our national economy. Both sides to the controversy put forward seemingly unanswerable arguments. Consequently, the analyst who turns to recorded Congressional hearings, engineering reports and other data finds himself compelled to "take a grain of salt" with some of the claims and counter-claims put forward. Yet the long range economic effects are obvious.

Before describing the various angles in connection with the Seaway, it is worth while emphasizing the fact that whether completion takes a shorter or longer period than planned for, the economic effects are bound to be monumental, particularly with regard to specific industries. These may be ranked as shipping, some railroads, steel and strategic materials, including nickel and titanium, coal and grain products.

The cost of the Seaway may well come to $5 billion or so but this is comparatively insignifiicant in comparison with the tens of billions of business dollars that will be generated within a decade after completion. After having made this statement, it is now time to look at the problems involved in sober fashion. It will be seen that the ramifications are immense and the problems quite complicated.

It will be a matter of a few years before the Seaway becomes a traffic artery of real capacity. In the meantime, industry and our economy will not be static, nor will our Atlantic and Gulf Coast ports sit idly by, waiting for the coming waterway to put them out of business. They will have to move definitely. Port facilities will be enlarged and improved to meet the new competition and, of far more importance, be ready to supply the needs of an overall economy which assuredly will expand in the time it will take to complete the new water route.

In the opening paragraph the writer referred to the Seaway as something which will directly link the Great Lakes ports with the Atlantic Ocean and the sea lanes of the world. However, it should be understood that the presently planned depth of the

Seaway—27 feet—is not deep for large ocean-going traffic, while the Great Lakes Ports are shallower than that, running from 21 feet at Chicago to a maximum of 27 feet at Cleveland. The Great Lakes ports will yet become handlers of through waterborne traffic to and from the marts of the world, but that will come only after we spend several billion dollars in dredging Great Lakes ports to depths which will accommodate sea-going vessels of approximately 27-foot draft. But, these are problems of a somewhat distant future. Let us turn to what is more practical: what we can or may see now, the new economic advantages to the United States and Canada, as well as some of the possible harm to certain of our own industries and our coastal ports.

Two Vital Phases

The principal immediate economic advantages of the Seaway will be two-fold, and in the order named, production of electric energy in the International Rapids section and the transportation of iron ores and other strategic raw materials from Labrador and Eastern Canada to the manufacturing centers of the United States, principally those now long in production in Western Pennsylvania, Northern Ohio and Western New York.

Taking first things first, perhaps the most important and dynamic phase of the Seaway is the planned installation of 2.2 million horsepower of generative capacity in the International Rapids Section. This will be jointly undertaken by the New York State Power Authority and the Province of Ontario at a cost of approximately $600 million, equally shared. Our Federal Power Commission has issued the necessary license to the New York Authority. For a short time it appeared probable that litigation instigated by public power advocates would delay New York's participation in this phase of the project.

These proponents of public power, incensed by tentative plans of the New York State Power Authority to market the power wholesale to four, possibly five, private companies—Central Hudson Gas & Electric Corp., New York State Electric & Gas Corp., Niagara Mohawk Power Corp., Rochester Gas & Electric Corp., and possibly Consolidated Edison Co. of N. Y.—applied to the Federal Court of Appeals to invalidate the action of the Federal Power Commission in licensing New York to share in the project. Losing out in the Court of Appeals, the public power advocates then applied to the U. S. Supreme Court to set aside the lower court's ruling. The High Tribunal, in a brief order early this month, declined to hear the appeal and thus swept away the last legal obstacle to this country's participation in the construction of the St. Lawrence River power project.

With these possible legal complexities out of the way, we can look at the power phases of the projected Seaway. The now-highly industrialized Province of Ontario can have little industrial expansion without more electrical energy, while the industries of upper New York state can expand with the aid of additional power, and newer industries can come in to supply the growing markets of New York, New Jersey, portions of the New England states, Pennsylvania and perhaps as far south as Virginia and Delaware. Not to be forgotten is growing Greater New York City; its Consolidated Edison Co., would well hook in to the new source of energy, provided, of course, the mentioned areas do not absorb our half of the 12.6 billion kilowatt-hours of electrical energy which the power project in the International Rapids Section will produce annually.

Canada the Greatest Beneficiary

Beyond question, Canada will derive the greatest economic advantages from the new traffic artery. She has the raw materials needed by our more advanced industrial establishment. For the first 10 to 20 years of the Seaway's operation and until Canada can develop heavy industries of her own, our Northern neighbor's chief gain will be through the sale of raw materials to the mills of this country.

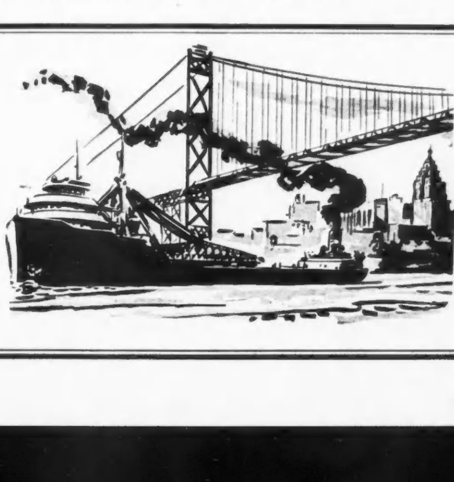
The Seaway will, of a certainty, give industry of the United States greater access to the vast reserves of strategic industrial materials recently discovered in the Northern regions of Labrador and Ungava. Chief among these are the iron ores in the former. It may well be that by the time the Seaway is completed and ready to handle an appreciable annual tonnage, these Labrador ores will be "just in time" to replace the ores of the Mesabi Ridge in Minnesota, now getting thinner, but not entirely exhausted.

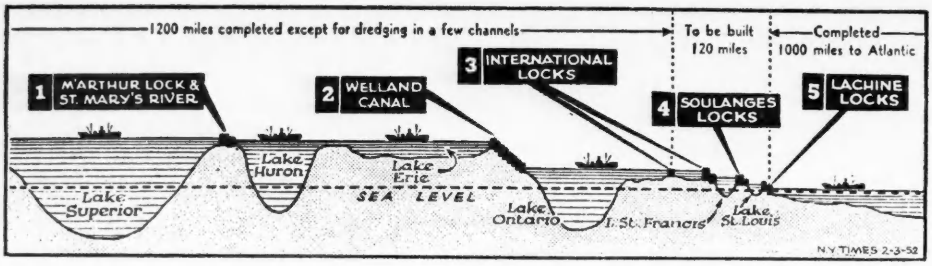
As of the moment, production of Labrador iron ore is nowhere near the annual demand of our Mid-West steel mills, but by 1960 or 1961, when the Seaway is ready to bear its maximum annual tonnage, that production may be close to half the annual demand. And, as Mesabi Ridge production gets even thinner, Labrador output may increase rapidly enough to assure our Mid-West mills an adequate and uninterrupted supply.

Iron Ore and American Interests

In the meanwhile, Canadian and American industrialists have not been idle. They foresaw the com-

A fifty-year old dream is about to be fulfilled with the commencement of construction on the St. Lawrence Seaway. When completed, it will be a link between the Great Lakes-midwest region and the Atlantic Ocean. Vessels up to 20,000 tons will be able to negotiate the passage, bringing products at lower transportation costs from all over the world to the heart of the American continent.





When finally completed, the St. Lawrence Seaway will be 2200 miles long. Ocean-going vessels of deep draft can already negotiate the 1,000 miles from the Atlantic to Montreal. Only 120 miles of major construction, between Ogdensburg, N.Y. and Montreal is required to link the Atlantic and Lake Superior.

ing of the new waterway and have made preparations to use it to capacity once it is a reality. In Canada, a new railroad to connect the iron ore deposits of Labrador with a port on the St. Lawrence River has been completed. By Mid-Summer the Iron Ore Company of Canada will have moved 1,000,000 tons of ore along this new carrier for transshipment, mostly to this country. The greater portion of it will move from *Sept Isles*, about 300 miles East of Montreal, by the St. Lawrence River and sea to Philadelphia where it will move on to the U. S. Steel Company's new plant at Morrisville, Pennsylvania, or to other East Coast Steel mills. What does not follow this route will move by barges to near Montreal where it will move by rail to Pittsburgh and Ohio mills.

It is believed that by the time the Seaway is ready for its maximum annual tonnage, variously estimated at from 30 million to 40 million, Labrador iron ore production will be at annual rate of 10 million tons, with a potential annual output of 20 million tons. Waterway transportation of this amount of ore would mean annual savings of around $500 million, according to those who have made close studies. But there will be other savings; Mid-West grain, moving by water from Chicago to European ports, can be transported at a saving of around five cents per bushel. A single nickel is not a large piece of money in itself, but when you get to moving a few million tons of grain each year, the nickel saved on each bushel mounts into more dollars than we care to count here.

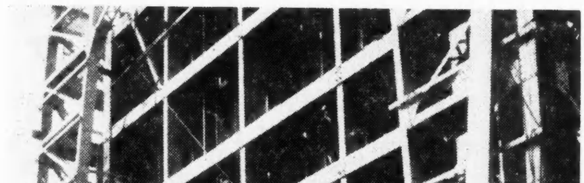
Savings in Transportation Costs

There will be other transportation savings. Durable goods of our Mid-West factories—farm machinery, tractors, automobiles, refrigerators, electrical appliances, to name a few—can move from Great Lakes Ports to European markets at savings of from $6.00 to $20 per ton from the combination rail-ocean rates now in effect. But these savings will not be in full effect until such time as we clear our Great Lakes Ports to those depths which will permit sea-going vessels to sail from, say Chicago, to Liverpool without transhipment of cargo at Montreal. In the meanwhile, cargoes are moving over the waterway, and at transportation savings, despite the unloading and reloading at Montreal. Perhaps more cargoes would have moved over the waterway as it now exists but for the fact that transhipment now necessary is time-consuming in an era when "time is of the essence" in international trade.

We have looked at the waterway's effects, West to East. A brief view in the opposite direction would not be amiss. Assuming that Lake ports are deepened to accommodate ships direct from the ports of Europe, does it mean our Mid-West and Far-West is to suffer by competition from European manufacturers? The answer is brief—no more than our Atlantic coast commerce suffers from European competition at this time, and that competition is far from serious provided our own industries stay ahead of Europe in both quality and quantity.

Rail carriers, among the most vociferous opponents of the Seaway, have predicted it would bring either their death in certain sections of the country or, if not their demise, demands for heavy Federal subsidies. Supporters of the Seaway have held the view that new business, generated by the new water route, would "take care of" the railroads. The records reveal no substantial proof by either side of the controversy, therefore this is one area in which we can only "wait and see." Biggest loss to the rails will be ore and grain traffic. It remains to be seen what discovery and invention of the next few years will bring in the way of new manufactured goods to be hauled by railways.

Ocean shipping interests of this nation will gain little from the new waterway. With a 27 foot depth, it can safely accommodate vessels of small tonnage, perhaps 5,000 at a maximum. Less than three percent of our merchant bottoms are this small, consequently the merchant fleets which will derive the



One of the immense hydraulically controlled gates to control water entering tunnels at new generating station at Niagara.

greatest gain from the Seaway will be those of Norway, Finland, Sweden, Greece, Spain and Portugal. Even our 10,000-ton fabricated ships of World War II vintage draw 32 feet when loaded to capacity.

With respect to tonnage to be lost by our Atlantic and Gulf Coast ports, the writer would point out that in calendar 1952, last year for which figures are available, their import-export tonnage totaled 141 million. The maximum annual estimated tonnage the Seaway can handle—import and export—is placed at 44 million. But, according to all calculations, 20 million tons will be iron and other ores moving from Canada and Labrador to the United States. Thus we see the Seaway "robbing" our Atlantic and Gulf Coast ports of a maximum of 24 million tons a year.

In the meanwhile, threatened ports are not remaining idle. Millions of dollars are being spent each year to improve facilities, speed the handling of cargo and otherwise meet the competition of the cheaper, but slower waterway. The Army Corps of Engineers and the Bureau of the Budget have approved plans to deepen the Delaware River Channel to 40 feet from Philadelphia northward to the new U. S. Steel plant at Morrisville, which largely plans to use Venezuelan ores. From Morrisville to Trenton, the channel will be dredged to a depth of 35 feet. Also approved is a 40 foot channel in the Hudson River from New York City to Albany. Similar improvements for other ports to the South are underway.

Military Advantage of Seaway

In the event of war, ore shipments from Venezuela would be vulnerable to submarine attack and this points up the military strategic value of the St. Lawrence Seaway which would be relatively safe from undersea craft, but it should be pointed out that during World War II German submarines made 13 successful attacks in waters of Labrador Bay, through which ore vessels will have to pass to enter the Eastern end of the Seaway.

A recent press association survey of port area opinions on the Seaway and its effects on port tonnages revealed local views ranging from indifference to pessimism. Albany foresees loss of Great Lakes grain trade; Boston, closer to Europe than ports to the South, feels it may not be hurt bad, and is going ahead with port improvements; Philadelphia authorities see traffic as normal during the five months the Seaway is ice-locked, but continues with improvement of facilities to speed handling of cargo.

Norfolk, key city of the great Hampton Roads, expects no substantially adverse effects, while Baltimore at the head of Chesapeake Bay envisions "severe" impact on export grain movements, plus curtailed ore imports when Labrador ores "move in quantity." New Orleans acknowledges keener competition for Mid-West cargoes, but says this can be offset by "selling" and good service to shippers. Texas ports, Houston and Galveston, the former with vast oil and cattle tonnages, the latter handling largely raw cotton and fertilizers, are not too concerned, while the Southern ports of Savannah, Ga., and Jacksonville, Miami, and Tampa, all in Florida, handle tonnages not likely to be affected by the new Seaway.

While the above is a balanced statement of the real situation with respect to the St. Lawrence Seaway project and the outline drawn of its nearby and more distant probabilities is couched in sober tones, there need be little question that the impact of this important development will be on a very large scale and will affect many sections of the United States and Canada.

One of the most immediate effects will be the increase of real estate values in localities in which new terminals are to be set up. Contrariwise there might be a drop in land values in terminals, particularly in the East, which will have to meet the new competition. This will apply more to terminals for smaller cargo vessels than for the big ocean-going ships.

Labor will eventually feel the effects and some movement of longshoremen and others involved in this traffic may be envisaged as developing in the direction of the new ports to be expanded along the Great Lakes and away from the older shipping ports. This shift of traffic will have a secondary effect on railroads feeding these centres.

It is obvious that the most immediate beneficiaries will be the various types of companies engaged in dredging and engineering operations of the type required in the construction of the new Seaway.

Various large scale mining enterprises in Canada, aside from iron ore, should also feel beneficial effects as their products move down the Seaway to Mid-west ports and thence for distribution through the entire industrial complex of that vital part of the country.

PRINCIPAL ECONOMIC EFFECTS OF ST. LAWRENCE SEAWAY

1. Immediate favorable effects on suppliers of materials used in construction: steel, copper, cement, lumber.

Stimulated demand for engineering and construction equipment.

2. Favorable effects on real estate values in localities in Great Lakes sections where new terminal facilities are to be created.

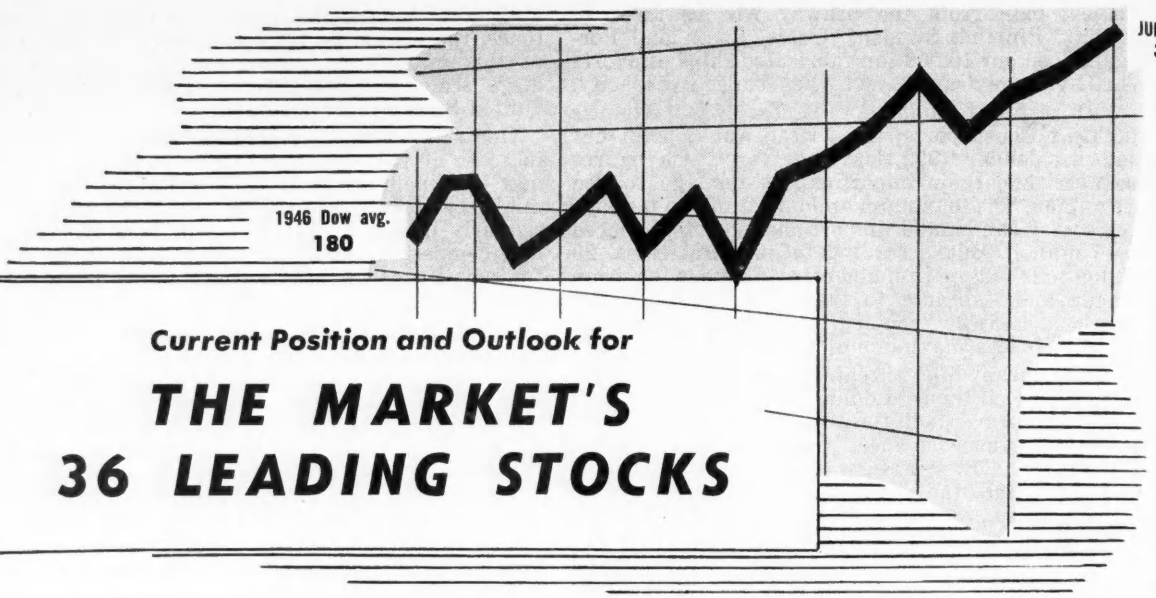
Possible unfavorable effects on real estate values along Eastern seaboard where diminution of ocean freight is more marked.

3. Favorable effects on producers of metals and strategic materials, especially in Canada—and iron ore from Labrador.

4. Great expansion of power facilities for Province of Ontario and Upper New York State.

5. Greatly enlarged iron ore facilities for mid-west steel manufacturers, offsetting threat of depletion of Mesabi reserves, and lowering costs.

6. Mixed effects on Eastern and Gulf ports, with some loss of freight indicated. Will also affect rails, serving these ports, especially in the East.



Current Position and Outlook for

THE MARKET'S 36 LEADING STOCKS

By WARD GATES

The solid core of the bull market in the post-war years, especially since 1949, has been the sustained strength of the leading stocks. This rather exclusive list of stocks has manifestly had the best record with respect to advances in earnings, dividends and market price, although they themselves have been dominant in the post-war period, their influence on secondary issues has been comparatively negligible. This is illustrated, for example, by the fact that of some one thousand odd common stocks listed on the N. Y. Stock Exchange at the end of World War II, fully sixty percent are selling below their highs of 1946—the peak for the war period—by margins of fifty percent and more. Nevertheless, as any sampling of so-called "averages" will indicate, the leading stocks, which constitute these averages, have more than doubled in market value during this period.

In view of this contrary performance—as between leading and secondary issues—which has been conspicuous for a long time, it has not been possible to think of the stock market as a single unit. It is therefore, fair to say that the "averages" indicate the position and action of only leading stocks and are not descriptive of the action of the vast bulk of listed issues.

However, because of their prominent position, it is important to observe the action of the "leaders" particuarly because it often serves to indicate the attitude of substantial investment interests as to the future of the most representative stocks. It is true that, from time to time, individual issues that are outside of the leader class have distinguished themselves by exceptional market strength. Often, however, this has proved less significant than would appear on surface as these issues faded out after the first blush of public enthusiasm waned. Instances in recent years have been the pricking of the speculative bubble in former favorites such as some of the pharmaceuticals, several in the formerly popular synthetic fibre group, and, of course, the textiles, liquors and many others.

The action of leading stocks is in direct contrast and a reflection of sustained and rising earnings and dividends for practically all of the post-war period. This has been consistently capitalized, in a great many instances, through stock splits, with dividends increased on the new shares. The result has been to pyramid the dividend income of earlier purchasers beyond that originally obtainable.

At the same time that leading company earnings and dividends were increasing, efficient corporate policy simultaneously brought about very large investments in plant and equipment, broadening the base of the companies' operations and ensuring much wider markets for their products. In addition, working capital has kept pace effectively, providing not only for current needs but for future needs as well. In most cases, these excellent results among the leaders were attained without recourse to new financing, all or most of capital requirements being met through retaining a large share of the earnings, despite new requirements for dividends. All this has proved a strong background for market action.

Consistent Advance

The most remarkable feature of leading stocks has been the consistency of their advance over the broad period under discussion, that is from the end of the war to the present. The accompanying table of 28 stocks, with 8 more commented on separately at the end of this article, shows that with very few exceptions, most of the leaders (the 36 selected being quite representative of the group, making full allowance for intervening fluctuations, have not given up a major part of their market advance for more than very brief periods. Even then they have immediately thereafter responded to the inherently favorable influences created by these companies' continued

progress. It may be said with considerable justice therefore, that these leaders have been in a more or less continuous "bull" market for the past eight and a half years, the longest sustained advance in such issues in the history of the stock market.

The market action of leading stocks, which is quite different from that of the rank and file of issues, cannot be sufficiently understood without an appreciation of the part which institutional buying has played, and continues to play, in this field. The buying comes from investment trusts, mutual funds, universities, pension funds and insurance companies of various types. The current daily or monthly investment of these institutional buyers in securities of the type under discussion far exceeds that of private investors and this disproportion is growing year by year.

Underlying this situation is the constant pressure to invest funds as they accrue to these institutions. As the percentage of funds invested in common stocks as against the more traditional type of fixed-income type investments (bonds, preferred stocks, etc.) is steadily increasing, it is obvious that the enormous pressure of funds to be invested has a paramount effect on leading, common stock issues, which are the only type with which these institutions could legitimately be concerned.

The effect of these "permanent" investments is to restrict the supply of qualified stocks since they are taken out of the market for very long periods. It has been suggested that there is a risk to the over-all position of the market in this heavy concentration in common stocks should the institutions involved be compelled to dispose of their securities in a brief period of time. The answer to this is that only a genuine depression, drying up the source of national income generally, could produce such a result.

Effect of Institutional Buying

In any case, up to the present, the persistent buying of high-grade common stocks by institutional investors has the double effect of simultaneously raising the prices of these securities and discouraging outside selling, that is to say, selling by private individuals who are impressed by the formidable market support given to their stocks by these large-scale investors.

This is probably the most important factor in the comparative resistance of leading stocks to prolonged pressure when it occurs in the general market. It also accounts for the ease with which these issues not only rebound but forge ahead, after the market recovers its balance.

This is illustrated in the 2-page table which accompanies this article. In this table which has been adjusted for stock splits, we give the yearly post-war price range, earnings and dividends per share of 28 leaders selected from industrial, rail and utility groups for their representative performance. We have also commented below on 8 additional stocks which we were unable to include in the table for lack of space. These 36 stocks substantially represent the most active leading stocks and offer a good cross-section of the market record of these issues.

On a composite basis, the group listed gained 143% in market value since 1946. Dividends increased 165% and earnings 280%. From this comparison, it would seem that of the two factors—earnings and dividends—earnings have been the more important in influencing stock prices; as the greatest market gains have been by stocks with the largest percentage gains in earnings during this period. There have been a few exceptions. For example, American Tobacco is selling well below its 1946 high and, in fact, has at no time in the post-war period shown more than temporary market strength but this is explained by the fact that earnings have made no real progress during the period, being sustained at about the same levels as 8 years ago. During the same period, dividends have actually been moderately increased, yet with no appreciable effect on the stock.

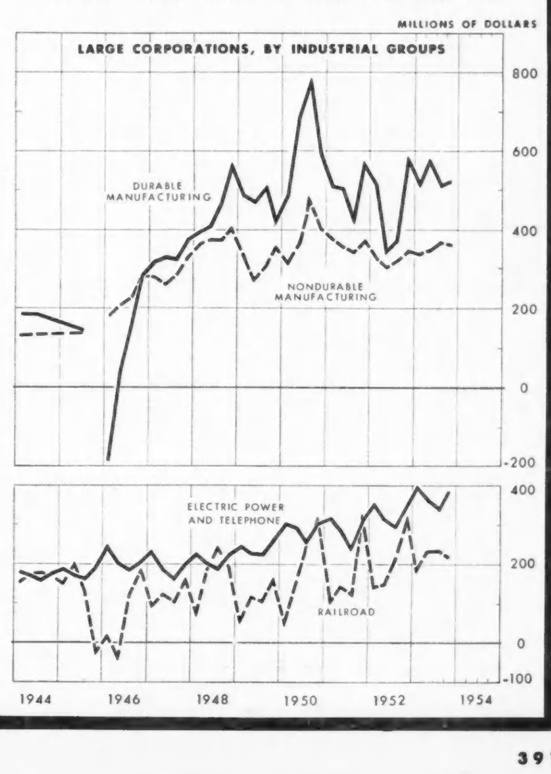
American Tel. & Tel. though it has shown some strength in recent months is nevertheless well below 1946 peaks. Here, also, we have an example of how earnings are the determining factor in market action. In this case, earnings have shown a moderate advance on a per share basis and dividends maintained at the same $9 per share rate throughout, yet this has not been sufficient to produce a broad rise for the stock.

General Electric is an outstanding example of a leading stock which has made steady progress marketwise since 1946 but which delayed the really important part of its advance until the 1953-54 period. In this case, it took an accumulation of steady growth in earnings to bring belated recognition of the growth factors associated with this important company.

The same principles hold true for the airplane stocks represented in the table. Here, too, an astonishing and persistent gain in earnings finally brought full market recognition after years of preparation seen in the steady accumulation of these issues. Best examples are Douglas and Boeing.

(Please turn to page 424)
(Tables on following page)

PROFITS AFTER TAXES OF LARGE CORPORATIONS



Post War Market Performance of Leading Stocks
(Adjusted for Stock Splits)

	1946	1947	1948	1949	1950	1951	1952	1953	1954	COMMENTS
ALLIED CHEMICAL & DYE										
Price Range*	53- 38	50- 41	49- 42	52- 41	64- 50	77- 58	78- 67	76- 62	90- 72[1]	"Market price times earnings" ratio (17-3) somewhat less than other high-grade chemicals. Growth prospects for entire group fairly well discounted for the present but long-term holdings need not be disturbed.
Earn. Per Share ($)	3.01	3.44	3.58	4.19	4.65	4.58	4.55	5.10	......	
Div. Per Share ($)	2.00	2.25	2.25	2.50	3.00	3.00	3.00	3.00	3.00[2]	
								Recent Price	87	
ALUMINUM CO. OF AMER.										
Price Range*	45- 30	40- 24	34- 23	27- 22	36- 25	44- 33	49- 36	62- 42	77- 58[1]	Market valuation per dollar earnings now quite liberal (16.3); yield small. Long term holdings can be maintained but new commitments should be deferred pending more attractive price level.
Earn. Per Share ($)	1.85	2.82	3.83	2.22	4.54	3.77	4.19	4.71	......	
Div. Per Share ($)	1.00	1.00	1.00	1.00	1.00	1.37	1.50	1.57	1.60[2]	
								Recent Price	76	
AMERICAN CAN										
Price Range*	26- 19	24- 18	23- 19	26- 20	30- 22	29- 23	36- 28	40- 31	45- 35[1]	Rather liberal valuation of earnings per share (16.4) temporarily seems to restrict appreciation posibilities. Long term holdings need not be disturbed in view of good growth prospects.
Earn. Per Share ($)	.60	1.92	2.43	2.51	3.17	2.75	2.25	2.56	......	
Div. Per Share ($)	.75	.75	1.00	1.00	1.25	1.25	1.26	1.40	1.40[2]	
								Recent Price	41	
AMER. TEL. & TEL.										
Price Range*	200-159	174-149	158-147	150-138	161-146	163-150	161-150	161-152	169-156[1]	Special background of this leading world corporation warrants new investment on a "dollar averaging basis." Yield attractive for this class of stock. Market valuation (14.9) not excessive.
Earn. Per Share ($)	10.12	7.50	9.52	9.22	12.12	11.00	10.48	11.32	......	
Div. Per Share ($)	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00[2]	
								Recent Price	166	
AMER. TOBACCO										
Price Range*	99- 73	82- 62	68- 54	76- 60	76- 62	68- 59	66- 54	77- 59	65- 57[1]	Relatively low market valuation per share of earnings (10.3) due to industry's lower sales and "cancer" publicity. Stock may be held but new investment restricted to "dollar averaging" basis.
Earn. Per Share ($)	5.96	5.70	7.58	7.90	7.17	5.57	4.79	5.90	......	
Div. Per Share ($)	3.25	3.50	3.75	4.00	4.00	4.00	4.00	4.00	4.40[2]	
								Recent Price	60	
ATCHISON, TOP. & SANTA FE										
Price Range*	60- 39	49- 33	60- 42	52- 40	76- 50	88- 68	104- 73	103- 86	109- 92[1]	In common with other rails, Atchison sells at low market valuation (7.3) but somewhat higher than other good rails. Suitable mainly for long-term retention.
Earn. Per Share ($)	6.76	8.56	11.66	9.03	15.65	13.83	13.29	14.62	......	
Div. Per Share ($)	3.00	3.00	4.00	4.00	4.25	4.50	5.75	5.00	7.00[2]	
								Recent Price	106	
BETHLEHEM STEEL										
Price Range*	38- 28	35- 25	39- 30	33- 23	49- 30	60- 46	55- 46	57- 44	71- 50[1]	Selling at abnormally low ratio of market price to earnings (5.0). Stock may be retained and is suitable as vehicle for speculation for long-term appreciation.
Earn. Per Share ($)	3.93	4.98	9.36	9.68	12.15	10.43	8.80	13.30	......	
Div. Per Share ($)	2.00	2.00	2.40	2.40	4.10	4.00	4.00	4.00	5.75[2]	
								Recent Price	68	
BOEING AIRPLANE										
Price Range*	11- 6	8- 4	9- 6	8- 5	13- 7	19- 13	20- 15	25- 18	45- 23[1]	Though selling at much higher prices than last year, earnings still very moderately valued (7.0). Long-term holdings need not be disturbed in view of dynamic nature of industry. Should defer new commitments.
Earn. Per Share ($)	(d) .10	(d) .13	.53	1.36	3.33	2.20	4.34	6.26	......	
Div. Per Share ($)	.33	.33	.33	.66	1.00	1.00	1.00	1.75	2.00[2]	
								Recent Price	43	
CHRYSLER										
Price Range*	70- 37	66- 56	65- 50	68- 44	84- 62	82- 65	98- 68	96- 58	64- 56[1]	Chrysler stock still liberally valued on earnings per share (6.9 times). Immediate outlook affected by changes in company's program. Long-term holdings need not be disturbed, despite present uncertainties.
Earn. ePr Share ($)	3.09	7.72	10.25	15.19	14.69	8.27	9.04	8.59	......	
Div. Per Share ($)	1.50	2.87	4.00	5.25	9.75	7.50	6.00	6.00	6.00[2]	
								Recent Price	59	
DOUGLAS AIRCRAFT										
Price Range*	27- 15	19- 11	16- 11	18- 12	24- 17	33- 21	32- 26	43- 30	69- 39[1]	(See Boeing) Somewhat higher market valuation (8.9) due to more advanced position in commercial aircraft. After long advance new commitments should be deferred. Long-term holdings should be maintained.
Earn. Per Share ($)	.90	(d) .89	2.43	2.30	3.01	2.88	4.50	7.73	......	
Div. Per Share ($)	1.87	.62	1.25	2.31	1.56	1.75	1.87	3.25	5.50[2]	
								Recent Price	67	
DU PONT										
Price Range*	56- 40	49- 43	47- 41	63- 43	85- 60	102- 82	97- 79	108- 91	128-104[1]	(See Allied Chemical) Market valuation of earnings very high (25.1) in comparison with other chemicals. Market appreciation possibilities now seem limited in view of prolonged advance.
Earn. Per Share ($)	2.36	2.47	3.28	4.52	6.58	4.64	4.70	4.94	......	
Div. Per Share ($)	1.75	2.00	2.43	3.40	5.35	3.55	3.55	3.80	4.00[2]	
								Recent Price	122	
EASTMAN KODAK										
Price Range*	52- 40	48- 42	56- 38	48- 38	52- 40	51- 41	48- 41	47- 41	63- 46[1]	(See Allied Chemical) Market valuation per share of earnings (20.6) quite substantial though in line with other chemicals. Stock now rather suitable mainly for long-term retention.
Earn. Per Share ($)	2.04	2.47	2.93	2.86	3.54	2.81	2.61	2.86	......	
Div. Per Share ($)	1.40	1.60	1.60[3]	1.70[3]	1.80[3]	1.80[3]	1.80[3]	1.80[3]	2.00[2]	
								Recent Price	58	
GENERAL ELECTRIC										
Price Range*	17- 11	13- 10	14- 10	14- 11	16- 13	21- 16	24- 18	30- 22	41- 29[1]	Stock has rather fully discounted near-term prospects with market valuation of 20.0 times earnings. Long-term outlook imposing and where stock is held as basic element in portfolio should be retained.
Earn. Per Share ($)	.50	1.10	1.43	1.45	2.00	1.60	1.75	1.92	......	
Div. Per Share ($)	.53	.53	.56	.66	1.26	.95	1.00	1.33	1.60[2]	
								Recent Price	40	
GENERAL MOTORS										
Price Range*	40- 23	32- 25	33- 25	34- 25	54- 43	54- 46	69- 50	69- 53	72- 58[1]	Liberal market valuation of earnings (10.5) reflects strong competitive position. Long-term holdings may be retained but new commitments should be on "dollar averaging" basis.
Earn. Per Share ($)	.88	3.12	4.86	7.32	9.38	5.64	6.26	6.69	......	
Div. Per Share ($)	1.12	1.50	2.25	4.00	6.00	4.00	4.00	4.00	4.00[2]	
								Recent Price	70	

(d)—Deficit. [1]—Year to date. [2]—Indicated 1954. [3]—Plus Stock. *—Round Figures only.

Post War Market Performance of Leading Stocks—(Continued)

(Adjusted for Stock Splits)

	1946	1947	1948	1949	1950	1951	1952	1953	1954	COMMENTS
GOODRICH (B. F.)										
Price Range*	29- 19	23- 16	21- 15	24- 17	42- 23	65- 42	77- 55	80- 60	93- 77[1]	Earnings per share valued considerably higher (10.8 times) than other tire stocks. Good long-term investment. New commitments should be on "dollar-averaging" basis.
Earn. Per Share ($)	5.89	5.39	5.52	4.79	8.06	8.15	7.60	8.16	....	
Div Per Share ($)	1.50	1.66	1.83	1.83	2.16	2.50	2.65	2.75	3.20[2]	
								Recent Price	87	
GULF OIL										
Price Range*	39- 28	38- 28	40- 28	35- 28	41- 29	58- 44	58- 46	50- 41	60- 45[1]	Though of excellent quality, stock has somewhat lower market valuation (7.9 times) than other strong oils. Stock should be held, with new commitments on "dollar-averaging" basis.
Earn. Per Share ($)	3.21	5.26	6.76	4.45	4.90	6.17	6.01	7.13	....	
Div. Per Share ($)	1.25	1.37	1.50[3]	1.87	2.00	2.00	2.00[3]	2.00[3]	2.00[2]	
								Recent Price	56	
INTERNATIONAL HARVESTER										
Price Range*	34- 22	31- 23	34- 26	29- 22	32- 25	37- 30	36- 29	33- 24	32- 27[1]	Lower market valuation of earnings (8.9 times) due to unsettled farm machinery situation and lower defense orders. Recent market action somewhat improved and holdings need not be disturbed.
Earn. Per Share ($)	1.30	3.35	3.92	4.36	4.72	4.36	3.76	3.46	....	
Div. Per Share ($)	1.00	1.21	1.70	1.80	2.00	2.00	2.00	2.00	2.00[2]	
								Recent Price	30	
INTERNATIONAL NICKEL										
Price Range*	42- 28	36- 25	34- 24	31- 25	36- 25	42- 31	48- 40	47- 34	43- 34[1]	Selling at fairly liberal valuation (12.0 times) for metal issue but may be retained on long-term basis in view of company's strategic position.
Earn. Per Share ($)	1.90	2.17	2.55	2.08	3.21	4.18	3.91	3.55	....	
Div. Per Share ($)	2.00	2.00	2.00	2.00	2.00	2.60	2.60	2.35	2.35[2]	
								Recent Price	41	
INTERNATIONAL PAPER										
Price Range*	27- 19	29- 19	34- 20	37- 33	52- 42	56- 45	55- 42	52- 51	71- 55[1]	Though substantially above market levels of former years, stock still selling at moderate valuation of earnings (10.5 times). Long-term holdings need not be disturbed.
Earn. Per Share ($)	2.77	4.99	5.45	5.18	6.72	5.71	5.23	6.44	....	
Div. Per Share ($)	1.12	1.50	1.87	1.87	2.25	3.00	3.00	3.00[3]	3.00[2]	
								Recent Price	67	
JOHNS-MANVILLE										
Price Range*	55- 38	46- 37	42- 33	50- 30	51- 36	70- 47	78- 62	74- 57	71- 61[1]	Stock selling at realistic appraisal of earnings prospects (11 times). Upward post-war climb in earnings temporarily interrupted but dominant position warrants retention.
Earn. Per Share ($)	2.01	3.23	5.22	4.83	7.22	7.76	7.14	6.20	....	
Div. Per Share ($)	1.16	1.40	2.00	2.50	3.50	4.25	4.25	4.25	4.25[2]	
								Recent Price	67	
KENNECOTT COPPER										
Price Range*	60- 41	52- 41	60- 42	56- 40	75- 49	88- 67	92- 68	82- 59	84- 64[1]	Renewed firmness in copper prices and govt. stockpiling lends new support. Substantially valued for a metal stock (9.7 times). Strategically placed if govt. defense commitments should increase again. Should be retained.
Earn. Per Share ($)	2.13	8.49	8.67	4.45	8.15	8.44	7.96	8.20	....	
Div. Per Share ($)	2.50	4.00	5.00	4.00	5.50	6.00	6.00	6.00	6.00[2]	
								Recent Price	79	
RADIO CORP.										
Price Range*	19- 9	10- 7	15- 7	14- 9	23- 12	25- 16	29- 23	29- 21	28- 22[1]	Stock realistically appraised at 11.4 times earnings but well-defined long-term prospects justify eventually higher market levels. New commitments can be made on "dollar-averaging" basis.
Earn. Per Share ($)	.56	1.13	1.50	1.58	3.10	2.02	2.10	2.27	....	
Div. Per Share ($)	.20	.30	.50	.50	1.00	1.00	1.00	1.00	1.20[2]	
								Recent Price	27	
SEARS, ROEBUCK										
Price Range*	49- 35	40- 30	43- 31	44- 33	55- 40	58- 51	62- 50	62- 56	65- 57[1]	Though definitely possessing good long-term prospects, stock liberally valued on price times earnings ratio (13.2). New commitments should be deferred but long-term holdings need not be disturbed.
Earn. Per Share ($)	4.24	4.56	5.80	4.58	6.08	4.73	4.56	4.87	....	
Div. Per Share ($)	1.75	1.75	2.25	2.25	2.75	2.75	2.75	2.75	2.75[2]	
								Recent Price	63	
SOUTHERN RAILWAY										
Price Range*	32- 16	25- 14	25- 16	20- 12	25- 16	32- 23	41- 24	49- 42	56- 39[1]	Low valuation (4.5 times) for stock with assured long-term prospects. Should be retained with new commitments on "dollar-averaging" basis.
Earn. Per Share ($)	2.16	3.43	6.26	3.44	7.47	6.11	9.57	11,63	....	
Div. Per Share ($	1.50	1.50	1.62	2.00	1.50	2.00	2.00	2.50	3.50[2]	
								Recent Price	53	
STANDARD OIL OF N. J.										
Price Range*	39- 30	40- 31	46- 34	37- 30	46- 33	75- 58	85- 72	78- 67	90- 71[1]	One of the strongest oils, stock sells at moderate price times earnings ratio (9.5). After prolonged advance in recent years, new commitments should be on "dollar-averaging" basis but long term holdings should not be disturbed.
Earn. Per Share ($)	3.25	4.91	6.22	4.46	6.74	8.72	8.58	9.13	....	
Div. Per Share ($)	1.54	2.00	1.00[3]	2.00[3]	2.50	4.12	4.25	4 50	4.50[2]	
								Recent Price	88	
UNION CARBIDE & CARBON										
Price Range*	41- 29	36- 29	43- 37	45- 33	55- 40	66- 53	72- 57	75- 61	84- 70[1]	Stock selling at exceptionally high price times earnings ratio (22.8). One of the strongest chemicals but prospects temporarily seem discounted. Can be purchased on "dollar-averaging" basis or new commitments made after market reaction. Hold long-term investment.
Earn. Per Share ($)	2.03	2.66	3.55	3.20	4.30	3.60	3.41	3.55	....	
Div. Per Share ($)	1.00	1.33	1.16	2.00	2.50	2.00	2.50	2.50	2.50[2]	
								Recent Price	80	
U. S. STEEL										
Price Range*	28- 19	32- 21	29- 22	26- 20	42- 25	47- 37	42- 37	44- 33	49- 39[1]	Selling at moderate ratio of price times earnings (6.2), stock has not fully reflected upbuilding of assets and earning power. Should be held on long-term basis; "dollar-averaging" applied to new commitments.
Earn. Per Share ($)	2.42	3.90	4.00	5.39	7.29	6.10	4.54	7.54	....	
Div. Per Share ($)	1.33	1.75	2.00	2.15	3.45	3.00	3.00	3.00	3.00[2]	
								Recent Price	47	
WESTINGHOUSE ELECTRIC										
Price Range*	39- 21	31- 22	33- 23	33- 20	36- 29	42- 34	48- 35	52- 39	73- 50[1]	Stock sells at considerably lower market valuation of earnings compared with G.E. (14.8 times vs. 20.0) and has some distance to go before more fully discounting long-term prospects. Stock should be held and new commitments on "dollar-averaging" basis.
Earn. Per Share ($)	.65	3.59	3.88	4.95	5.36	4.03	4.23	4.53	....	
Div. Per Share ($)	1.00	1.25	1.25	1.40	2.00	2.00	2.00	2.00	2.00[2]	
								Recent Price	67	

(d)—Deficit. [1]—Year to date. [2]—Indicated 1954. [3]—Plus Stock. *—Round Figures only.

Inside Washington

—President's Program Makes Progress—

By "VERITAS"

DEMOCRATS on Capitol Hill don't really believe that this session is heading toward the stigma of a "do nothing" congress. In their private councils they agree that the output will be above normal, that the White House will fare well. Said 20-year veteran Rep. Francis E. Walter, a democratic leader: "By passage I suppose you mean in some form or another because, after all, when legislation reaches the floor it is subject to amendment. So that when you talk about the President's legislative program, I should say that practically everything that he advocated will be enacted into law in some form or another at this session."

WASHINGTON SEES:

Political capital is bound to be made of the fact that congress did not more firmly come to grips with the problem of foreign trade than to grant another one-year extension of the international agreements act.

It will be defended that the subject demands protracted study; diplomatic relations and domestic economy are so entwined in the import-export picture as to make any other course hazardous. And it will be answered that a full year has been put into that study and a detailed report has been submitted by the Randall Commission, whose creation was the excuse for not taking more affirmative steps one year ago and for vitalizing the trade agreements act then for but 12 additional months.

The extender bill has solid democratic backing. On the GOP side there has been another of those spectacles to which Washington observers are becoming accustomed: republicans on the ways and means committee had been holding back, putting out feelers to learn whether Ike would be willing to accept a one-year extension but not use the terms of the law to make any serious changes in the flow of international goods. This seems plainly an invasion by the legislative arm into the realm of the Executive.

President Eisenhower was forced to give ground on his broader program for international trade. He notified congress further delay in tackling the main issue would be acceptable in return for a one-year trade act, to be used as he sees fit. Within, of course, the stated provisions of the law. Democrats are doubly pleased: the Cordell Hull program has republican indorsement; there's still another cleavage in the GOP.

OPINION as to what form the foreign aid program shall take seems to be jelling into a firm understanding that this is not the time to serve notice on the nations being courted by the Reds that the United States is ready to drop them. But dovetailed into that understanding is recognition of the fact that aid has been haphazardly and loosely administered and this is the time to stop and take inventory before proceeding ahead. No one seems to know how much money has been spent out of appropriations and the figure on unexpended balance ranges between $9 and $12 billions, depending upon the source of your information. Congress will want to know what's on hand before deciding how much more is needed.

FORMALITIES attending declaration of a policy of opposition to labor draft in the event a new national emergency arises were purely for the record. The National Labor Management Manpower Committee submitted its unanimous statement at the height of speculation whether the Indo-China fracas might call for men and materiel from the United States. They had only to review the records of World War 2 when the idea was first seriously put forth. Opposition was intense.

EMPHASIS will be placed on establishment of industrial apprenticeship programs now that the high schools of the nation have released millions of boys who, by choice or economic necessity, will not continue on to college. Unions and the government will work together to create an inviting reservoir on which industry may draw. In many technical lines there is a dearth of well-trained mechanics. But employers find it difficult to obtain the services of young men who are willing to consider their training period to be chargeable to education, wait for the higher wages until their productive abilities warrant. Unions say a willing youth should produce a profit for his employer after six months.

As We Go To Press

For all practical purposes, the starring performers have vanished from the stage and what will come out of the McCarthy hearings is pretty much a foregone conclusion. The reports will divide along the same lines as did the questioning during the long hearings: the four republicans and the three democrats will submit analyses and findings that will give the public wonder whether they were sitting at the same "trial." If anybody is censured by the republican members, it will be surprising; if anybody escapes censure in the democrats' minority report it will be equally unexpected. The GOP senators already have made it clear, aside from Sen. Potter's blast, that they regard the whole thing a tempest in a teapot, and there was nothing sinister on either side. The democrats will apply the rod to both McCarthy and Cohn, build the case into a challenge of the co-equal branches of government, a blow at the heart of army morale and, therefore, national security.

The overall result will be an attempt to revise rules for congressional hearings and it will, as have similar hopeful gestures have in the past, fail. The indisposition of congressmen to tie their own hands indirectly by writing rigid rules for colleagues who happen currently to be sitting as inquisitors, will overrule all other considerations. But some good will come of it: men of business who have been subpoened, or have come voluntarily before committees in the past have been protesting badgering tactics but getting no audience. It wasn't conceivable to the larger body of citizens that taxpayers could be so thoroughly disturbed, and without remedy. Also the hearings revealed that many executives are not above finagling tactics, back-door intrigue. The performance of men in high federal office will be judged, for many years, by the measurements of the McCarthy committee evidence.

The inquiry sharpened up pictures with which the public either was already familiar, or in which it had little or no interest. They stamped Senator McCarthy as a strong-willed man who must be given credit for a dedication to a purpose which throws many other considerations out of his focus. Roy Cohn lived up to his advance billing as an intellect but many of his friends would be more pleased if his recollection on certain particulars was as complete as his inability to remember others was. Frank Carr proved to be a loyal policeman who follows the orders of his chief but doesn't attempt to fix methods. Secretary Stevens is a high-class gentleman who would prefer to get along well, socially, with everybody but who demonstrated he's not up on his job when he had to confirm through an officer at his side that he, Stevens, appoints generals. Counsellor John Adams is a skilled lawyer who sees it his professional duty to advance the cause of his client, or defend it, whichever way the wind blows. The seven senators sitting as judges brought into favorable beam, the practice of members of the judiciary to disqualify themselves from passing on matters in which they have personal interest and predilections.

The anti segregation decision of the Supreme Court which will be followed in any situation affecting the right of persons of any race to make use of public facilities seems unlikely to have harmful effect on any parts of the Eisenhower Program which touch it. That was clear in the case of public housing; the Administration won a senate victory against predictions that the legislation would be hotly contested, possibly junked. Senator Maybank, a spokesman for the southern bloc, predicted antisegregation rules on letting of dwelling units would doom the legislation. He received no substantial support. Segregation has been banned in military arms to a very large extent. In view of the action on federal housing, congress is not likely to permit the racial issue to affect the fate of federal aid-to-schools. Of course the bill may not come up at all, or, if it does, it won't be as broad as National Education Association and others want.

It isn't an economic indicator of the importance that might be attached to the blank statement, bu the federal government has carefully probed the subject and comes up the assurance that your dollar bills will last longer next year than they do now. That

goes for bills of all other denominations, too. They'll have to last longer because the Bureau of the Budget has clipped 25 per cent from the budgetary allowance for printing the stuff and the Bureau of Engraving and Printing has been told to keep within the limits. So, there will be less money to burn in the BEP incinerator which annually reduces billions of dollars to ashes, under watchful eyes. Badly soiled and wrinkled bills are burned by the bale.

Republican leaders in the senate may have chased Senator Wayne Morse, Oregon Independent, over into the democratic party. He votes against the GOP almost always, so there is little to be lost on roll calls. Morse was elected on the republican ticket but bolted the Eisenhower-Nixon vote drive in 1952. For this he was punished by loss of his GOP-awarded committee assignments. He retaliated in a costly fashion in a senate where democratic votes are needed to carry any White House-sponsored bill. Aggravation of the situation could have been avoided if the party leadership acceded to his request to have a minor special bill objected to without his personal motion. It would mean delay, not final action. The GOPers wouldn't do it and the democrats now are wooing him more than ever. He is strong in Oregon and seems likely to be re-elected in 1956. If he runs as a democrat, he could pull in the state ticket and some house seats.

President Eisenhower may have to ask congress to join him in parental talks to the Atomic Energy Commissioners. Chairman Lewis L. Strauss wants more authority concentrated in his office. He claims it would promote efficiency, speed decisions. His fellow commissioners don't like the idea and a fight is breaking into the open. The decision of a trial board to declare Dr. J. Robert Oppenheimer a good citizen who had better not be trusted with the secrets he was largely responsible for creating, also has split the board which ultimately must make the final findings. Now it's proposed, via a congressional resolution, to complicate the situation by creating a joint committee to watchdog AEC and atomic development phases of the Economic Report. The President considers the situation already sufficiently complicated, wants the cars back on the tracks.

Students of government have a striking object lesson on the overwhelming vote (355 to 8) by which the house passed the Administration's social security bill. It means that the federal insurance program has run the gamut from intense opposition to ardent support -- all in the course of 20 years. Two decades ago it was attacked through every medium of expression (including propaganda in payroll envelopes) as the high-speed route to national socialism and eventual bankruptcy. Now a republican President and a House of Representatives dominated by his party, has given the system the greatest breadth it has ever known. While by its very nature, social security legislation is something you will be subjected to constant change, it is noteworthy that the idea now is universally credited -- or nearly so -- for a large part in stabilizing the economy. With 10 million more workers now under its tent and with benefits to all increased, the new bill will affect almost every household in the country.

A new facet of Dwight D. Eisenhower is coming into view and it's putting some of the "lone wolf" congressmen on notice. His observation that the GOP must enact a dynamic legislative program if it is to remain in power was first taken as useful rhetoric. But the President is becoming more insistent as time goes on and the grist of the congressional mill frankly does not measure up to his expectations. Only a matter of days ago he told reporters at his news conference there is nothing more important to the United States today than enactment of a legislative program that comprehends the great needs and requirements of all our people. He was, he added, bent on giving exclusive attention, from now on, to the promotion of his own broad legislative plan.

Congressmen are not especially disturbed at the idea of somebody looking over their shoulders while they are at work. But when Ike made it clear that he has every intent to go to the nation on the subject of legislation, he snapped the lawmakers to attention. He was going to talk to everybody he saw; to the reporters, every time he saw them; he was going to talk to the public, he was going to talk to everybody in congress at every opportunity. This was not in the nature of threat or complaint, it was made clear; idea is simply to impress the imperative need for forward-looking action.

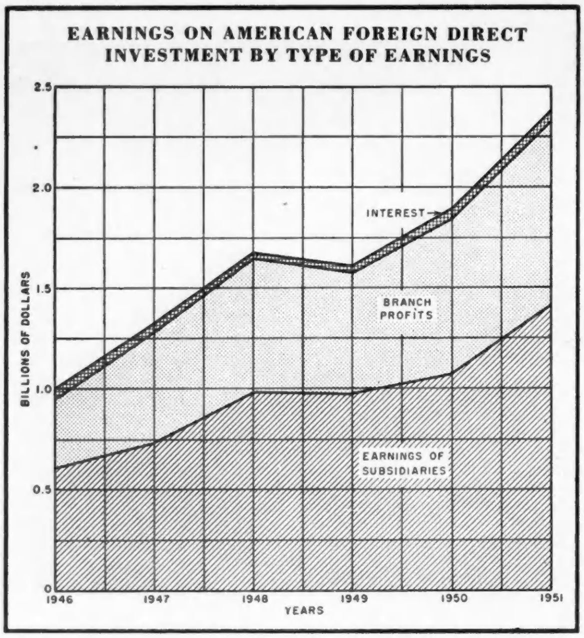
American investments abroad are handicapped by many fundamental problems but they are increasing, nevertheless. This article describes the existing handicaps and the remedies in sight.

U.S. Private Investments Abroad

By WALTER SULZBACH

Most people agree that such American capital as can be sent to foreign countries should be invested as a business proposition and not in the form of governmental gifts. Gifts cannot be continued indefinitely; and, as the unfortunate experiment of the British Labor government with the development of groundnuts in Africa has demonstrated, private enterprise is usually able to find better experts and to direct the work more efficiently than public servants, however honest and devoted. In that respect the Eisenhower administration feels like former Under Secretary of State, Webb, who declared in 1949: "Private American investments constitute the largest potential source of investment capital in the world."

Webb claimed that if investments abroad could be stimulated relative to American national income up to the levels attained during the 1920's we would be making net annual private investments abroad of at least $25 billion. Actual investments somewhat exceed half of this amount. Webb's figure was reached by an extrapolation of the relation between foreign investments and the national income in the 1920's.



EARNINGS ON AMERICAN FOREIGN DIRECT INVESTMENT BY TYPE OF EARNINGS

There are, however, formidable obstacles in the way of private investments in foreign countries, many of which did not exist in the 1920's and practically none of which played a role before the first World War. More currencies are nowadays inconvertible than convertible. There are restrictions on the remission of capital and earnings. In many countries the entry of capital and the conduct of business are controlled. There is also the risk of outright expropriation.

Various countries have a "51 percent law," which means that foreign investors must allot 51 percent ownership to native partners. Foreign enterprises are frequently pressed to make high contributions to local "charities." In Mexico the government may close the gates to new investments and has done so in the past. This is the doctrine of "saturation of industry." In India the foreign investor must employ and train Indians wherever practicable, must admit foreign capital into partnership and, in some instances must promise to increase output continuously.

Expropriation

The outright expropriation of foreign enterprises has spread under the influence of nationalism and socialism. The expropriation of aliens is no longer considered robbery but is performed with a good conscience. When Mexico took over the foreign oil properties in 1938 the dispossessed owners were told that "On the one hand, there are weighed the claims of justice and the improvement of a whole people, and, on the other hand, the purely pecuniary interest of some individuals." At the United Nations' Conference on Trade and Employment, which was held at Havana in 1947-48, the great majority of the nations present insisted that, though a fair treatment should be given to foreign nationals whose properties were expropriated, no international obligation could be accepted to refrain from any expropriation merely because the exchange situation might forbid payment in foreign currencies.

The Bogota Conference of 1948 did no better. It declared that any expropriation by an American country "shall be accompanied by payment of a fair price in a prompt, adequate, and effective manner." But it also stated that these principles are subordinated to "the constitutional laws of each country" or to the principle that all inhabitants and all investments are "subject to the jurisdiction of the national courts." These reservations actually nullify the commitments of the Agreement.

Small wonder, then, that the International Bank for Reconstruction and Development finds it difficult to locate sufficient suitable loan projects and cannot make use of part of its resources.

Before and After the First World War

The golden era of foreign investments was the period that came to an end in 1914. When we look at the circumstances which at that time made the people of Great Britain the greatest international creditors ever, the factors emerge which are hampering the free flow of capital at present.

During the years 1875-1914, before the United States had become a creditor nation, Britain, France, and Germany appear to have invested approximately one billion dollars annually in foreign countries. Of all foreign investments Britain had provided 40%, and France and Germany together 35%. Between 1903 and 1913 Britain's new foreign investments averaged over £150 million a year. In 1913 they reached £200 million—$1 billion at the rate of exchange at the time; and that for a population of only 40 million, when the price level was about one-third of what it is now. Britain derived from her overseas investments 4% of her total national income in 1880, 7% in 1903, 9% in 1913.

One of the principal reasons why foreign investments were so attractive at that time was their high yield as compared with their domestic counterparts. In the first decade of the present century British consols yielded 3%, British home securities generally 3.5%. Good foreign bonds gave an average yield of 5.2%. Foreign venture capital equally produced substantially higher dividends than domestic investments. The American who can make 6% from good industrial equities at home today would need a yield of 9% from foreign investments to compensate him for the additional risk. Actually, the over-all return to American corporations on direct foreign investments in 1951 was about 16% *before* U. S. corporate income taxes, as compared to 11% on domestic investments *after* all taxes. Furthermore most of our states do not allow insurance companies and the trustees of pension funds, who administer a decisive section of all American savings, to invest in other than domestic bonds.

The bulk of British foreign investments in 1913, and still in 1930, were in primary producing countries. Much the same can be said of present American investments. The British developed public utilities, such as roads, railroads, power plants, and harbors, and thereby indirectly increased exports. Americans invest in a different manner today because our experience with public utilities, which are nowadays almost entirely controlled by nationalistic and often irresponsible governments, has been very bad.

"Direct" investments are those investments in which a significant element of ownership, management, and control is involved. Where these are

absent and the foreign investor has relatively little control we speak of "portfolio" investments. The latter consist of equity or debt; in past American experience, except for Canadian equities, however, almost only of debt.

Portfolio vs. Direct Investment

Americans had substantial foreign portfolio investments in the 1920's. At present, the only foreign obligations for which there is demand are either Canadian or those of the International Bank. The Israeli dollar bonds are supported by sentimental factors.

In the years 1919-1930 American portfolio investment was $8.3 billion, direct investment $3.3 billion. Since the last war, direct investment prevails. Including the reinvestment of earnings in foreign countries the latter has ranged between $700 million and $1,700 million annually since 1946.

In order to retain or gain markets which would otherwise be closed through currency restrictions or tariffs or other unfriendly measures American corporations have taken up manufacturing in various countries. It is unlikely that large-scale portfolio investments abroad will be revived in the foreseeable future. The 1930's are too well remembered.

In spite of all the obstacles which American businessmen must overcome abroad our direct investments are not at all negligible and they are increasing. American business has more than $16 billion invested in branches and subsidiary companies in foreign countries as against $12 billion three years ago. American-controlled enterprises abroad produce about one-fourth of our imports. Among these are such important items as nonferrous metals and alloys, woodpulp and paper, wool and oil. American automobile manufacturers have found it wasteful to export finished cars in large crates. They save freight and take advantage of cheap labor by establishing assembly plants abroad.

The United States needs raw materials, and this factor, more than any other, stimulates direct investments in overseas areas. American steel mills need imported iron ore. Therefore Republic Steel is exploiting iron deposits in Liberia; U. S. Steel and Bethlehem Steel have iron properties in Venezuela. The complete list of American branch plants abroad includes big names in every field of production: producers of chemicals and pharmaceuticals, of office equipment and farm machinery, razors and cash registers. Almost a third of our direct foreign investment is in factories. The outstanding fact, however, of which we should be aware in the first place, is that extractive enterprises are responsible for almost half of the grand total. By far the largest investments are in the oil business. Of U. S. direct investments abroad in 1951 31% concerned petroleum. Another 31% was in manufacturing, of which petroleum processing was a large proportion. Mining and smelting accounted for 10%. Only 5% was in agriculture, including such products as bananas, sugar, and cocoa.

During the last three years manufacturing has expanded more rapidly than oil and mining.

Foreign investment capital produces 55% of Costa Rica's, 70% of Chile's, and 97% of Venezuela's exports.

Income from Direct Investments

At the end of 1952 39% of American foreign investments were Latin American, 31% Canadian, 14% western European. In recent years an average of $1,200,000,000 of income has come to this country from direct investments abroad. After payment of local taxes and retention for business reasons the amount remitted was $1,400,000,000 in 1952. Nearly half of recent earnings have been reinvested abroad.

In addition there are, of course, our governmental and semi-governmental investments through entirely or partially by the U. S. financed public agencies. Long- and short-term, direct and portfolio investments together exceeded $37 billion a year and a half ago. The total is increasing by more than two billion dollars annually, of which three-fourths is on private account. Our financial support to allied nations, as far as it is voted by the Congress, has the form of grants. It does not add to our investments.

Some Favorable Factors

This is, then, the overall picture: The promises for American investments abroad, as compared with those at home, are not nearly as good as they were for British investors before the first World War. There are many drawbacks and uncertainties abroad which an investor did not have to consider fifty years ago. Yet it is in the interest of our own country and that of the world at large that such investments should be made. As a matter of fact, they are made. And, more than that, they are increasing.

This is a surprising fact which calls for an explanation. Some of the causes of the present interest in certain foreign investments, such as our need for raw materials and oil and the danger of losing markets that were founded on no longer available export facilities have already been mentioned. It should also be remembered that a large percentage of our foreign investments is located in Canada, which is considered as safe and as progressive as the United States. But these factors do not take care of the whole problem. Two more contributing factors must be emphasized, in the absence of which the flow of capital would be even smaller in the context of the whole big American economy than it actually is. One is the fact that some foreign countries at least are aware of the merits of foreign investments and

(*Please turn to page* 425)

Companies with Significant Investments Abroad

Aluminum Co. of America	Loew's Inc.
Amer. & Foreign Power	Lone Star Cement
American Metal Co.	Merck & Co.
American Radiator	Natl. Cash Register
American Smelting	Otis Elevator
Anaconda Copper	Parke, Davis & Co.
Bristol Myers	Pepsi Cola Co.
Cerro de Pasco	Chas. Pfizer & Co.
Coca Cola Co.	Procter & Gamble
Colgate-Palmolive	Rayonier, Inc.
E. I. duPont de Nemours	Remington Rand
Eastman Kodak	S. O. California
Firestone Tire	S. O. New Jersey
Foster Wheeler	Sterling Drug, Inc.
Gillette Co.	Texas Co.
Goodyear Tire	United Fruit
Gulf Oil	20th Century-Fox
Int. Harvester	U. S. Rubber
Int. Tel. & Tel.	U. S. Steel
Johnson & Johnson	Warner Hudnut
	F. W. Woolworth

This is a partial list but represents some of the more important companies with extensive interests abroad.

1954 OUTLOOK FOR NATURAL GAS INDUSTRY

No. 11 of Our Special Studies of Major Industries

By CHARLES H. WENTWORTH

The natural gas companies, while continuing their rapid growth and development of the post-war period, have been greatly handicapped in the last two or three years by slow and adverse Federal and State regulation. Because of the huge increased demand for gas house-heating in many areas, the pipelines have required large additional amounts of natural gas, and competition for these supplies has lead to a rising trend of prices at the well-head. A few years ago, natural gas was obtainable as low as 5c per mcf. in Texas and huge amounts were "flared" and wasted, since oil was the main product. Contracts have recently been made at as high as 25c. Fortunately most pipelines are protected by long-term contracts at lower prices, although many contracts are vulnerable, since they have escalator provisions frequently referred to as "favored nation" clauses. Thus, if new contracts at higher prices are negotiated in a certain field, the new price automatically applies to the old contracts.

Under the New Deal administration the staff of the Federal Power Commission adopted certain theories or policies which made it difficult for most pipelines and integrated gas systems to adjust their retail rates to a level commensurate with the increased cost of gas in the field. In some cases, after a few months, they were able to put requested rate increases into effect "under bond," but this left a feeling of uncertainty in investors' minds regarding the permanence of these revenues. Thus the companies were handicapped in making their expansion plans and financing programs.

The climax came about two years ago when the retiring Chairman of the Federal Power Commission gave a talk before the New York Society of Security Analysts, in which he was subjected to a barrage of questions, some of which he seemed unable to answer. In several important decisions made shortly before his talk (affecting Northern Natural Gas and Colorado Interstate Gas) the Commission had adopted the "cost of money" method of fixing the allowable rate of return, with resulting unfavorable effects. "Cost of money" referred to the historical average yields of bonds, debentures and preferred stock issues when sold to the public. Combined with these on a weighted basis was the average "cost" of common stock financing, estimated on an earnings-price basis. The method of calculation involved some statistical fallacies, Wall Street analysts claimed, and unduly favored utility customers at the expense of the stockholders.

Change in Attitude

Under the new Administration and with a new Chairman of the Federal Power Commission, conditions appeared more promising. For a time, the staff continued to guide the Commission, and the results remained unfavorable despite the expressed desire of the Commissioners to treat the utilities fairly. Thus in the rate case of United Fuel Gas (a large subsidiary of the Columbia Gas System) the Commission indicated that it was allowing an adequate rate of return, whereas Columbia officials claimed that due to various innovations by the staff, the return would actually work out at less than 4%. The Commission quickly made amends, however, by granting readjustments.

Under its "new management" the Commission has also made an effort to speed up the disposal of the huge backlog of rate cases which had been clogging its dockets. Chairman Kuykendall reported a few weeks ago that 26 natural gas rate cases, involving more than $115 million rate advances, had been disposed of during the 9 months ended March 31—

Statistical Summary of Natural Gas Companies

PIPE LINES (Some Production)

	Earnings Per Share			Dividends Per Share			Recent	Div.	Price Range
	1951	1952	1953	1951	1952	1953	Price	Yield†	1953-1954
Mississippi River Fuel	$ 3.29	$ 3.57	$ 3.12	$ 2.20	$ 2.20	$ 2.20	43½	5.5%	43⅞- 34½
Southern Natural Gas	2.14	1.97	2.06	1.25	1.32½	1.40[1]	31½	4.4	33¾- 23
Tennessee Gas Transmission	1.39	1.85	1.65	1.40	1.40[2]	1.40	25½	5.4	26 - 21⅜
Texas Eastern Transmission	1.75	1.11	1.33	1.00	1.00	1.00	21½	4.6	22 - 15⅝
Texas Gas Transmission	1.80	1.14	1.59	......	1.00	1.00[2]	18½	5.4	18¾- 14⅝
Transcontinental Gas P. L.	1.35	1.24	1.81	......	.35	1.40	24	5.8	24 - 19⅛

†—Based on 1953 dividend.

1—Plus 0.24306 share of Alabama Gas.
2—Plus stock.

INTEGRATED COMPANIES

	Earnings Per Share			Dividends Per Share			Recent	Div.	Price Range
	1951	1952	1953	1951	1952	1953	Price	Yield†	1953-1954
American Natural Gas	$ 2.58	$ 2.34	$ 3.48	$ 1.65	$ 1.80	$ 1.90	44½	4.2%	47¾- 28
Colorado Interstate Gas	1.88	1.51	1.45	......	1.25	1.25	47	2.6	47¾- 29⅝
Columbia Gas System	1.06	.83	.73	.90	.90	.90	14½	6.2	15 - 12½
Consolidated Natural Gas	5.67	4.19	4.11	2.50	2.50	2.50	60	4.1	60¾- 48½
El Paso Natural Gas	3.06	2.95	3.37	1.60	1.60	1.60[1]	40	4.0	40¼- 30
Lone Star Gas	1.76	1.55	1.50	1.40	1.40	1.40	26	5.3	29¼- 23⅛
Montana-Dakota Utilities	.73	.94	.95	.87½	.90	.90	22	4.1	28½- 17½
National Fuel Gas	1.19	1.38	1.11	.80	.80	.95	18½	5.1	19⅛- 13⅞
Northern Natural Gas	1.76	2.82	2.58	1.80	1.80	1.80	42	4.2	46¾- 34½
Oklahoma Natural Gas	1.46	1.39	.94	1.00	1.00	1.15	22½	5.1	23⅝- 18
Panhandle East. Pipe Line	3.03	4.99	4.93	2,00	2.50[2]	2.50	78	3.2	88¾- 64½
Peoples Gas Lt. & Coke	9.16	8.57	9.72	6.00	6.00	6.00	153	3.9	156 -127
United Gas Corp.	1.56	1.56	1.99	1.00	1.06	1.25	32	3.9	32⅜- 23½

†—Based on 1953 dividend.

1—Plus 1 Western Nat. Gas for each 45 El Paso held.
2—Plus stock.

RETAIL DISTRIBUTORS

	Earnings Per Share			Dividends Per Share			Recent	Div.	Price Range
	1951	1952	1953	1951	1952	1953	Price	Yield†	1953-1954
Brooklyn Union Gas	$ 2.22	$ 1.79	$ 2.12	$ 1.50	$ 1.50	$ 1.50	31	4.9%	32¾- 22½
Laclede Gas Co.	.89	.92	.98	.45	.37½	.50	11½	4.3	11¾- 8
Pacific Lighting	1.18	2.48	2.00	1.50	1.50	1.62½	35	4.6	36⅝- 27¾
United Gas Improvement	2.28	2.01	2.39	1.55	1.55	1.76[1]	34½	5.1	37⅞- 30¼
Washington Gas Light	2.54	2.51	2.30	1.50	1.65	1.80	32½	5.5	34 - 29

†—Based on 1953 dividend. **1—plus 1 share Niagara Mohawk Power for each 10 shares held, and 1 share of Consumer Power for each 20 shares held.**

Pipe Lines (Some Production)

Mississippi River Fuel: Excellent growth record; earnings down moderately last year but $6 million rate increase in 1953, plus heavier space heating in early 1954, should improve net. (H)

Southern Natural Gas: Rapid growth with revenues last year gaining 23%. Earnings-dividend record favorable. Produces only about 7% of its own gas needs hence benefits little by Panhandle decision. (N)

Tennessee Gas Transmission: Revenues gained nearly tenfold in postwar period, while share earnings showed irregular gains. A $4.7 million rate increase became effective March 1 and a $13.6 million increase was recently requested. (N)

Texas Eastern Transmission: Probably most rapidly growing pipeline. Conversion of "Little Inch" line to oil products requires special financing, plus sale of common to retire $16 million bank loan. Improvement in earnings and dividend indicated. (H)

Texas Gas Transmission: Share earnings irregular but now improving, with rate adjustments designed to give company 6% return. Completion of underground storage projects also favorable. (H)

Transcontinental Gas P. L.: 20% equity ratio gives stock leverage possibilities. Earnings improved sharply in 12 months March and gains should continue. Company planning further expansion. (H)

Integrated Companies

American Natural Gas: Proposed new major transmission line from Gulf Coast to Detroit, with other facilities, would cost about $200 million, involving sale of $25 million common. Earnings increased ½ last year. (H)

Colorado Interstate Gas: To benefit substantially by Panhandle decision because of company's directly-owned 3 trillion cf. gas reserves in the Texas Panhandle, together with producing interests in other areas. (H)

Columbia Gas System: Largest integrated system but rapid growth has not thus far benefitted stockholders. With full effects of more favorable rate treatment, last year's 75c earnings might eventually be doubled. (H)

Consolidated Natural Gas: Former offshoot of Standard Oil system, company has conservative equity and background. Earnings in declining trend in 1952-3, but settlement of rate cases may raise earnings to over $5, with probable dividend increase. (H)

El Paso Natural Gas: Probably most rapid growth system. Equity ratio of only 22% gives stock greater leverage. Expansion program expected to continue. (H)

Lone Star Gas: Old-line conservative system, with dividends since 1926. Producing properties becoming increasingly important. 1954 earnings estimated around $2.15 vs. $1.50 last year. (H)

Montana-Dakota Utilities: Stock sells at a high level in relation to earnings and dividends, due to potential future discoveries of oil and gas in company's large acreage in the Williston field. (H)

National Fuel Gas: Earnings and dividend record sound, with payments since 1903. Good but not phenomenal growth. Rate relief plus larger supply of gas for house-heating expected to stimulate earnings. (H)

Northern Natural Gas: Important rate settlement negotiated on 6% return basis and other rate cases may be expedited. With about 1.5 trillion of gas reserves, should benefit by new FPC policy. (H)

Oklahoma Natural Gas: Earnings declining for some years (dividend was not covered in 1953) but currently recovering due to rate increase. Industrial expansion may also improve future earnings. (N)

Panhandle Eastern Pipe Line: One of most successful gas stocks marketwise. Recent FPC decision had unfavorable market effect because it required large cash refunds to customers. Impact was exaggerated, however. (H)

Peoples Gas Light & Coke: Conservative management but nevertheless pushing development policies aggressively. Earnings steady around $9-$10 for some years, but substantial gains seem in offing. (H)

United Gas Corp.: Consistent gains in both gross and net, and share earnings this year expected to increase, assuming FPC rate cases can be worked out favorably. Dividend increase possible. (H)

Retail Distributors

Brooklyn Union Gas: Earnings and dividend record quite irregular, but present strong sales campaign (house-heating, etc.) producing good results and earnings on upgrade. (H)

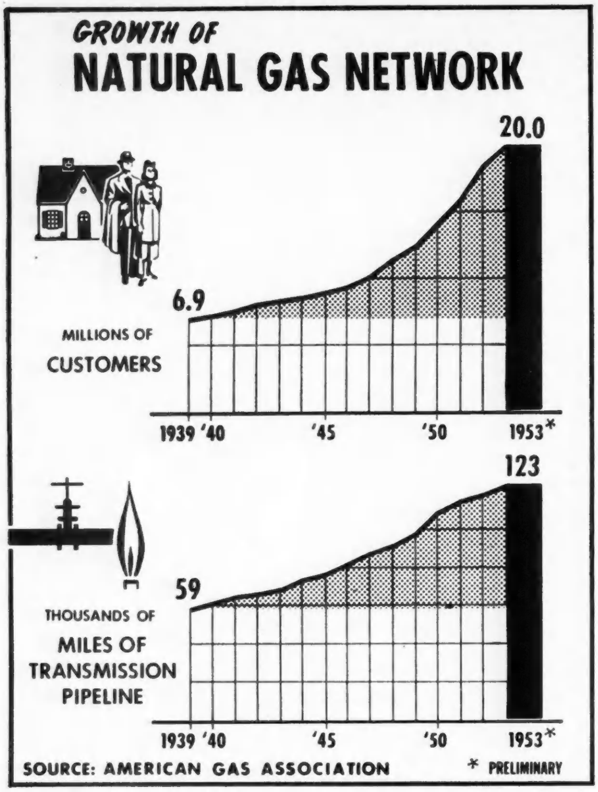
Laclede Gas: Stable earnings since 1947 in 80c-$1 range. Gradual increase in dividend rate. Underground storage development may permit further growth. (H)

Pacific Lighting: Largest retailer, with dividend record since 1909. Recent earnings barely cover dividend, but $2 rate should be maintained. Company hopes to obtain $6 million rate increase. (H)

United Gas Improvement: Formerly a huge holding company, now a medium-sized gas retailer in Pennsylvania. High equity ratio might permit expansion program via mergers, etc., but management conservative. (H)

Washington Gas Light: While revenues gained sharply in past decade, share earnings showed little net gain, receding in past three years. Some earnings recovery anticipated, but increase in dividend seems unlikely. (N)

RATING: (H) — Hold. (N) — Neutral.



over double the amount decided during the two preceding fiscal years. However, there was still a backlog of over $103 million (involved in 38 cases), and some other large increases have since been filed due to rising field prices for gas. Out of the $115 million in proposed rate increases which the Commission had taken care of in the 9 months' period, 71% of the increases were allowed to go into effect, 27% were disallowed and 2% withdrawn.

He also stated that of the 26 settlements during the first nine months of this fiscal year, 21 were reached through the conference procedure, avoiding long-drawn-out formal hearings. He pointed out that prompt action on these cases has almost invariably benefitted the consumers—since the settlements usually result in substantial reductions from the rate levels proposed by the companies (which might otherwise be collected, subject to refund, over long periods of time). In the fiscal year 1953, the conference procedure had accounted for only nine settlements, and in fiscal 1952 only six.

The big "break" for the gas utility industry came with the recent decision in the Panhandle Eastern Pipe Line case, however. Previously, the Commission had strictly enforced an original cost rate base for the entire property. Where a utility company owned gas wells and other production facilities, these had to go into the rate base at their original cost. This rule prevailed even though independent producers in the same area could legitimately mark up the value of their wells and related property, to the higher price levels for field gas. Thus, most natural gas utility systems with production reserves have been greatly handicapped—in effect they were deprived of virtually all the benefits obtainable from the steady rise in the price of gas. Thus, they had no motive to enlarge their reserves or do new drilling or wildcatting. More and more of this expansion program had to be assumed by the oil companies and independent producers which had not been subject to FPC regulation.

Supreme Court Decision

For years the issue as to whether the Commission, under the Natural Gas Act, had the power to regulate "independent" producers had been "batted around." The Commission, consistently opposing regulation of the "independents"—meaning natural gas producers neither owning nor operating interstate gas transmissions systems and not affiliated with any company owning such a system—specifically declared back in 1951, that it lacked jurisdiction over gas sales by Phillips Petroleum Co., to interstate pipeline companies. This ruling by the Commission, overruled by the Court of Appeals, was appealed to the U. S. Supreme Court by Phillips which was joined by authorities of New Mexico, Oklahoma and Texas. In a 5 to 3 decision handed down by the High Tribunal on the 7th of June, this year, it was ruled that sales of natural gas by Phillips Petroleum to pipelines that distribute it in interstate commerce are subject to FPC regulation, a ruling that also covers all the so-called independent natural gas producers' sales to interstate pipeline companies. The decision, unfavorable on face insofar as Phillips and the "independent" producers are concerned, was not a complete surprise, and there are those in the industry that are directly concerned who hold that the ultimate decision as to this regulation will be up to Congress.

Moreover, it would be premature to say that, pending an appeal to the Court for reconsideration of the case, which is believed possible, or other action to bring the matter before Congress, possibly at a later date, the FPC will make any forthwith decisions under the power with which it is now vested.

In sanctioning rate increases last April, for Panhandle Eastern Pipe Line Co., the Commission, apparently heeding the company's complaint that the original cost "rate base" method was discriminatory with respect to production facilities, used the so-called "field price" method for adjusting rates. By this action it pulled the producing utilities up to a level with the independent oil-gas producers. This decision is complicated, however, so that reservations must be made as to its technical applications.

Important Beneficiaries

The chief beneficiaries of the new FPC policy will be those utilities with the largest gas reserves. An exception is United Gas Corporation, which in the past has not been affected by the Federal Power Commission's former practice with respect to original cost. Its production subsidiary, Union Producing Company, which has gas reserves of about 4.3 trillion cubic feet, has always preserved its own identity, the same as before it became part of the United Gas System. Its dealings with United Gas Pipeline Company have been on an "arm's length" basis, and it has sold its gas at a level corresponding to field prices in its area.

The Commission is naturally concerned, however, about the present "merry-go-round" of rapidly rising field prices for gas and the resulting changes in wholesale rates, which in turn result in a large num-

ber of retail rate cases before both Federal and state commissions—sometimes involving municipal regulation as well. The FPC recently announced that it may decide to adopt rules concerning automatic escalation and favored nation clauses in gas purchase contracts between interstate natural gas companies with producing companies. Admitting that it is generally desirable that the pipeline's purchase contracts should cover fairly long periods in order to protect their customers, the Commission said that "contract provisions which are not in the public interest should not be approved or given formal recognition merely for the purpose of extending the reserve contract period."

President McGowen of United Gas Corp. recently expressed the fear that field producers might "price themselves out of the market" if the price of gas should rise much higher. In many areas (though not all) natural gas is competitive with coal and oil, though of course its convenience for use in house-heating is a "plus factor." The relative costs of shipping the respective fuels from their nearest supply areas is usually the governing factor; thus in many areas along the Atlantic Seaboard oil has gained an advantage because of cheap shipment by tanker. But in many interior areas there is still a big unsatisfied backlog of customers who want natural gas for house-heating purposes, and this is the principal reason why the pipe line companies still have ambitious plans for bringing more gas from Texas, the Gulf Coast, the Hugoton Field, etc. At some point the current rise in the cost of gas may put a damper on these expansion projects but apparently that stage has not yet been reached.

Increased Demand from N. Y. and N. J.

Reference has been made to the increasing demand for gas from industry in New York and northern New Jersey, as well as the steady rise in use of gas for house-heating. According to one estimate, the number of customers for space heating in the New York area will double by 1957.

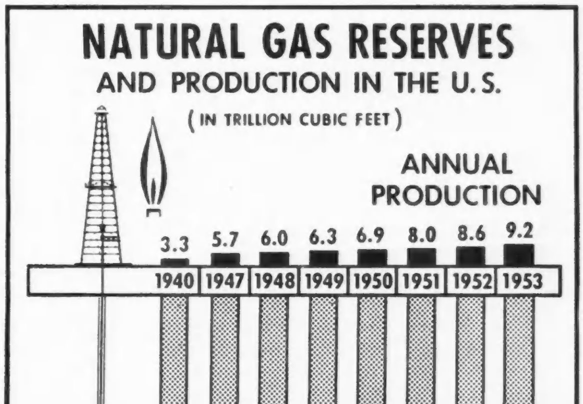
There has been some discussion of a "fight" between Transcontinental and Texas Eastern Transmission on the one hand (now the major suppliers of the New York, New Jersey and Philadelphia areas) and Tennessee Gas Transmission Company on the other, to supply this demand. Brooklyn Union Gas is waging a strenuous campaign to increase its house heating sales, Consolidated Edison recently announced further conversion to natural gas, and Long Island Lighting has indicated that "it wants to sell more gas." Superficially, therefore, it doesn't look as though the rise in the field cost of gas has hurt the New York market, but much will depend on the aggressiveness of the utilities in that area in seeking to wean their customers away from oil and coal for house-heating. The convenience of gas and the reduced amount of servicing required may prove the dominant factor in many cases, if a real selling job is done. Then, too, the producers of gas appliances such as Servel, are now bringing out new equipment such as air-conditioners, clothes driers, etc., which will promote the use of gas.

The Panhandle decision has proved of special interest from a stock market angle, since it will directly benefit those interstate utilities which have substantial gas producing facilities. So far as Panhandle itself is concerned, the market took an initially unfavorable view since it appeared likely that the company would have to make very substantial cash refunds to customers. Back in August 1951 the company had asked for $21.4 million in rate increases, and some months later it put these rates in effect under bond, pending a final FPC decision. The company did not place the revenues obtained from these rate increases in escrow, or set up any reserve. Hence when the FPC recently reduced the amount of the increase by nearly 40% to $12.8 million, the company was faced with the necessity of making large cash refunds to customers. This amount was originally estimated at about $32 million, but later it was realized that tax adjustments would cut the amount to around $16 million, which could be taken care of out of cash on hand.

In 1952 Panhandle reported share earnings of $4.99 and in 1953 $4.93; but if the reduced rates had been in effect these earnings might have been scaled down to around $3—on which basis Panhandle at the current price around 79 might seem amply priced.

While Panhandle was allowed a return of only 5¾% on its rate base instead of the 6½% requested, an offsetting factor was the substantial increase in operating costs permitted under the new rule. Panhandle has been paying about 8.4c per mcf for gas purchased from independent producers and it can now charge approximately this cost against its own gas, although formerly this cost was only about one-tenth as great (based on the original plant cost formula).

It has been esti- (*Please turn to page* 427)



NATURAL gas reserves in the United States continued to expand in 1953 despite a record withdrawal of 9.2 trillion cubic feet. At the end of the year 11.7 trillion cubic feet had been added to proved recoverable reserves, bringing the total to 211.4 trillion cubic feet. Increased exploration activities accounted for new discoveries last year of 7.1 trillion cubic feet compared with only 5.4 trillion of reserves in new fields brought in during 1952. Extended drilling in existing fields added another 13.4 trillion cubic feet to the nation's fuel reservoir.

By J. C. CLIFFORD

STOCKS WITH DECLINING DIVIDEND MARGINS

In the last issue of The Magazine we presented under the caption "Companies Whose Earnings Justify Higher Dividends," a group of five stocks, selected from a comparatively long list of issues showing steadily expanding earnings, indicating there was better than an even chance of dividend payments being increased.

This was a particularly attractive group and representative of that type of corporation whose management policies have been responsible for exceptionally good performances and which very likely will be able to repeat this record in the coming period.

In contrast to this list, there are a number of companies showing an earnings downtrend. In some instances, the declines, are without significance inasmuch as they reflect conditions of a temporary nature and although 1954 first quarter net was under that reported for the same period of last year, earnings continued to provide ample dividend coverage. On the other hand, there are a number of companies whose earnings have been conspicuously downward over a period of several years and which made very poor showings in the first three months of this year. Many companies in this group, showing consistent retrogression in earning power, appear to have reached the point where some uncertainty is warranted on the part of their stockholders as to ability of management to continue dividend payments indefinitely at current rates.

Several of these companies are included in the accompanying table of 12 stocks with declining dividend margins. In studying the earnings comparisons set forth therein, investors should distinguish those companies which should be able to maintain present rates of payments from those that might possibly make moderate substantial reductions in dividends and those that might entirely eliminate payments. In weighing individual company dividend prospects, it should be borne in mind that some dividends are insecure because of low earnings and necessity of keeping financial conditions unimpaired. Others, however, because of strong finances could maintain current level of dividend, despite declining earnings margins, for some time. The list we present herewith is obviously not all inclusive, being merely a selection of issues in which there is considerable investor interests. Comments on some of these stocks follows:

ADMIRAL CORP., showed only a slight dip in 1953 earnings of $3.48 a share from $3.69 a share earned in 1952, giving effect to the 20% stock dividend paid last October. While 1954 first quarter net of 64 cents a share compares with $1.56 a share earned in the corresponding period of 1953, reduced inventories together with improved outlook in the appliance field, including air conditioning units which Admiral added to its line last year, may pull full 1954 net up to approximately $3.00 a share. Need for maintaining an adequate cash position has held annual dividend rate to $1.00 a share. Payments on this basis should continue.

AMERICAN VISCOSE encountered a number of adverse factors during 1953 that account for net earnings dropping to $2.74 a share from 1952's showing equal to $4.88 a share. Net income for last year of $12.2 million was off by almost $9 million from the previous year largely because of a drop of about 3% in final quarter sales, a strike at the company's Nitro plant, lower other income and increased depreciation charges, all of which combined with a higher tax liability in the absence of prior tax credits, cut earnings by 42%. Operations in the 1954 first quarter reflected continued decline in sales, particularly in textile yarns, high costs due to curtailed operations and lower selling prices. Net for the quarter fell to 34 cents a share from 84 cents a year ago. While a better profits trend might develop during the final half year the fact that the 50 cent quarterly is not being earned currently creates some uncertainty of its continuation and that management

may deem it good judgment to lower this rate of payment. The company is in a good financial position, having as of March 31, last, cash and marketable securities of $36.1 million which together with $18.6 million in accounts receivable and $35 million in inventories, brought current assets up to $89.8 million, or 3.35 times total current liabilities of $26.8 million.

ANACONDA COPPER'S generally higher costs in 1953 and the congestion of unsold Chilean copper due to that country's government policies had the effect of cutting last year's earnings to $3.52 a share from $4.61 reported for 1952. First 1954 quarter net equal to 47 cents a share reflects the generally poor demand for zinc and lead, prices for which were off considerably from 1953 highs, as well as a moribund copper market, although the price of the red metal held firm between 29 and 30 cents a pound. Government plans for stockpiling of zinc and lead and possibly copper, together with improved consumer demand has improved the outlook for these metals and it is likely that second quarter earnings of Anaconda will register a sizeable gain over the first quarter showing. The company has strong finances and although the year's dividend requirements are apt to be covered by only a slim margin, the current 75 cents a share quarterly dividend should be maintained.

ELECTRIC STORAGE BATTERY, reflecting reduction in defense work and smaller volume of automotive battery sales, earned $1.87 a share for 1953, after a cut in reserve credits from 78 cents a share for 1952 to nine cents a share. First quarter results this year were disappointing. Net sales of $19.7 million were $1.6 million under 1953 first quarter and after taxes, the company reported a net loss of $90,000. equal to a deficit of 10 cents a share, compared with net of four cents a share in the corresponding quarter of last year. Some improvement in both sales and pre-tax earnings may be registered in the second and third quarters, but unless some special credits can be applied, heavier gains in net earnings available for dividends are likely to be restricted. Strong finances should permit maintaining current dividend rate through this year, pending a recovery in earni g power.

ELLIOTT CO., in reporting net earnings equal to $4.17 a share, down from $5.08 a share for the previous year, reflected higher wage scales and other operating costs which could not be offset by increased prices because of vigorous competition. These conditions still prevailed in the 1954 first quarter. Net sales for the three months, amounting to $10.2 million were up slightly from those in the 1953 first quarter, but net income was held to 92 cents a share, as compared with $1.23 a share a year ago. The company's order backlog as of March 31, 1954, stood at $22.9 million. Current dividend of 40 cents a share appears secure, although some uncertainty might be in order as to whether this rate will again be supplemented by a year-end extra.

GENERAL RAILWAY SIGNAL in reporting 1953 net earnings of $3.30 a share for its common stock last year showed the effects of lower production during the final quarter. Similar conditions prevailed in the first three months of this year but elimination of excess profits tax payments with the demise of the law on January 1, enabled the company to show net for the common stock equal to 68 cents a share, as compared with 74 cents for the 1953 first quarter. Backlog of unfilled orders at the end of the first quarter was reported to be equal to about six month's work. Some improvement, however, is looked for and with the aid of replacement and repair business, 1954 earnings should provide enough coverage for the regular 50 cents a share quarterly dividend, and possibly an extra distribution, although there is a basis for entertaining a reasonable degree of doubt as to the latter.

ISLAND CREEK COAL despite its relatively low operating costs last year was unable to offset competition and lower sales, particularly in the third quarter. As a result, net income fell from $2.90 a share for 1952 to $1.14 a share for the common stock. Earnings for the first quarter of the current year amounted to 21 cents a share, compared with 28 cents a share in the 1953 first quarter. While it is not likely that there will be any near-term improvement, some recovery may develop later in the year with the reduction of coal inventories and a continued improvement in operations of the steel industry which require metallurgical-grade coal such as (*Please turn to page* 428)

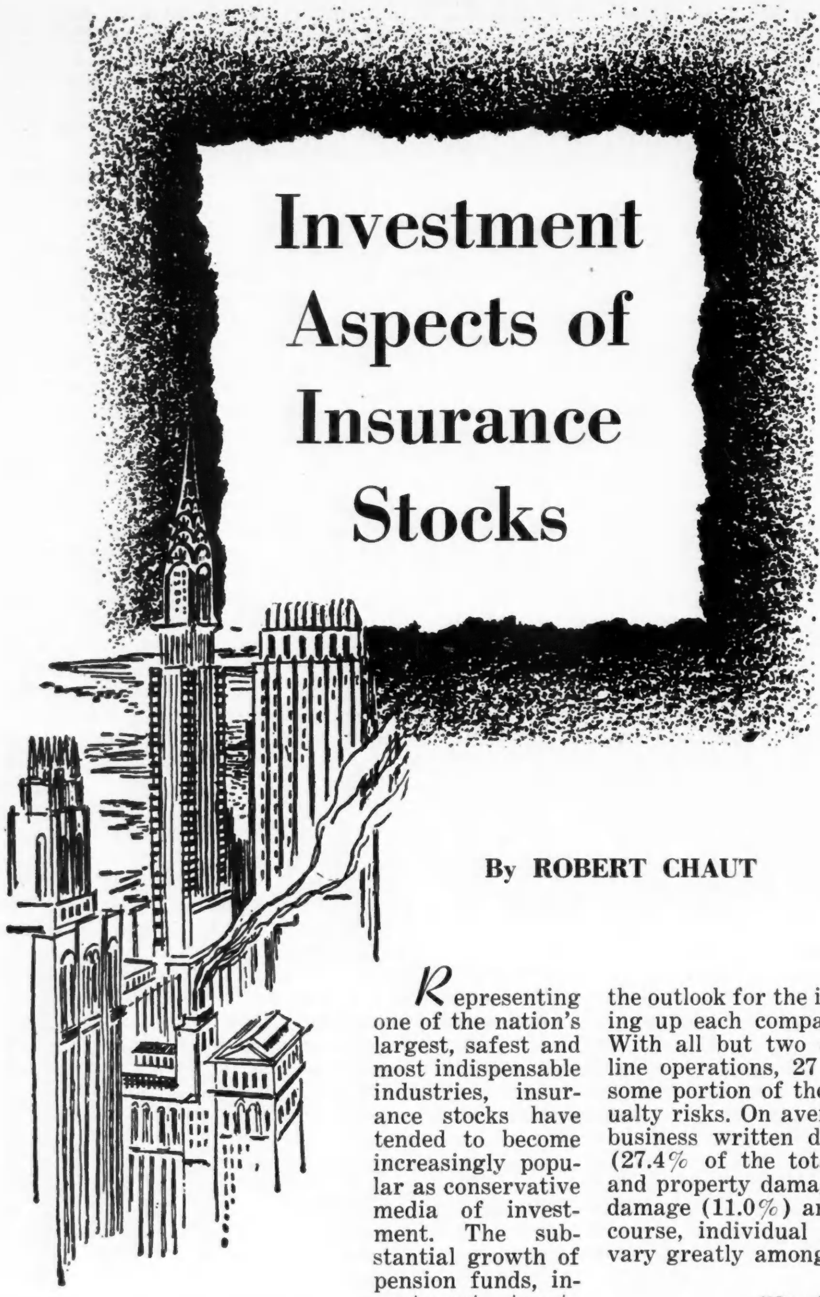
Stock With Declining Margin of Earnings Over Dividends

	1952		1953		1954					
	Earnings Per Share	Div. Per Share	Earnings Per Share	Div. Per Share	1st Quar. Earnings Per Share	1st Quar. Div. Per Share	Times 1st Quar. Div. Earned	Price Range 1953 to-Date	Recent Price	Yield* %
Admiral Co.	$ 3.69	$ 1.00	$ 3.48	$ 1.00[1]	$ .64	$ .25	2.5%	27¼-18¼	19	5.2
American Viscose	4.88	2.50	2.74	2.00	.34	.50	.7	60¾-30⅝	33	6.0
Anaconda Copper	4.61	3.50	3.52	3.00	.47	.75	.6	45¾-29	38	7.8
Electric Storage Battery	3.48	2.00	1.87	2.00	(d) .10	.50	(d)	37¾-23	24	8.3
Elliott Co.	5.08	2.10	4.17	2.00	.92	.40	2.3	33⅝-22	26	5.3
Firth Carpet	.94	.55	.45	.55	(d) .01	.10	(d)	13¾- 7¼	8	5.0
General Railway Signal	3.91	2.50	3.30	2.50	.68	.50	1.3	37¾-25	28	7.1
Island Creek Coal	2.90	2.50	1.14	1.75	.21	.25	.8	30½-14	15	6.6
Mullins Mfg.	2.63	1.60[1]	2.44	1.60	.27	.40	.6	28¾-18	24	6.6
Plymouth Oil	3.97	1.60[1]	3.32	1.60[1]	.79	.40	1.9	34⅞-23½	27	5.1
Studebaker	6.06	3.00	1.14	3.00	(d) 2.72	.40	....[2]	43½-14½	17	....
Tung-Sol Electric	3.75	1.25	3.07	1.25	.78	.25	3.1	24⅞-15⅞	19	5.2

***—Based on indicated rate.**
(d)—Deficit.

[1]—Plus stock.
[2]—Second quarter dividend omitted.

Investment Aspects of Insurance Stocks



By ROBERT CHAUT

Representing one of the nation's largest, safest and most indispensable industries, insurance stocks have tended to become increasingly popular as conservative media of investment. The substantial growth of pension funds, investment trusts and other institutions of like character; the trend toward savings bank purchase of insurance stocks in many states; and the increased use of the "prudent man" rule whereby a relatively large portion of trust investments may be made in conservative common stocks—each of these factors has built up new sources of demand for equities representative of the insurance industry.

Upon realization of the fact that the approximately 70 fire and casualty insurance companies whose stocks enjoy a more or less active national market have outstanding somewhat less than 60 million common shares and the total capitalization of 15 major stock life insurance companies is represented by only 19 million common shares—versus the 88½ million shares of General Motors and the 86½ million shares of General Electric in the hands of the investing public, it is perhaps redundant to repeat that oft-used phrase of stock traders . . . "More buyers than sellers make prices go up."

Fire and Casualty Companies

1953 was the fourth most profitable year in the history of the fire and casualty insurance industry, and market prices reflected this fact with gusto. At Dec. 31, 1953, an index of prices of the 30 major insurance stocks noted in the table herewith stood 72.1% higher than 1948 year-end prices and 20.4% above 1929 "highs"; since the end of 1953 prices have risen another 13.1% to an all-time peak. With these securities presently selling at 13.3 times last year's earnings and 12.4 times "average" earning power, to yield only 3.65% on current dividends, it is becoming extremely difficult to find "bargains" among the major insurance stocks.

To assess the investment merits of the various situations in the insurance industry, it has become increasingly necessary to appraise the outlook for the individual lines of insurance making up each company's major portion of business. With all but two states now permitting multiple-line operations, 27 of the 30 companies listed did some portion of their business in both fire and casualty risks. On average, the most important lines of business written during 1953 were fire insurance (27.4% of the total volume), automobile liability and property damage (19.2%), automobile physical damage (11.0%) and extended coverage (7.3%). Of course, individual portfolios of underwriting risk vary greatly among companies.

"Straight" Fire Insurance

Still the largest line of business written, although it has tended to become somewhat less important as a result of more substantial growth in other types of business (the 30 companies noted wrote 33.7% of total volume in fire insurance ten years ago), fire insurance proper has been extremely profitable since 1948. Although the profit margin on this coverage fell from 9.6% in 1952 to approximately 7% last year, the *average* margin of profit during the five-year period 1949-1953 inclusive, has been about 10½%. This five-year average is exceptionally important in analyzing future trends since most Insurance Commissioners regard a 6% profit margin over a five-year period to be fair and equitable—

reducing rates when average profit margins exceed 8% and raising them when the margin of profit declines below 4%. The better-than-average experience of recent years has resulted in 26 states reducing rates during the past 18 months and it is expected that this trend will continue.

Here the fundamental cyclical characteristic of insurance company earning power evidences itself—changes in premium rates must necessarily and inevitably lag behind loss experience, rising when experience is unfavorable, and declining after a period of abnormally profitable underwriting. Thus we find recurrently that a particularly profitable underwriting period precipitates reductions in premium rates and a shrinkage in earnings; conversely, unprofitable underwriting experience leads to rising premium rates and improved profits.

Contrary to this picture of declining premium rates for fire insurance, fire losses in the country continue to rise. Destruction for the twelve-month period ended April 15, 1954 was reported at an all-time high of $931,377,000, 16.2% more than losses during the previous twelve months. Even excluding the disastrous $30 million fire last August at the General Motors Livonia plant, fire losses are running appreciably ahead of any other period in history and *there is no evident reason to expect any sharp change in the loss trend.* Actually, physical destruction by fire has been almost unprecedently low if the dollar amount of fire loss is adjusted by the inflation factor and population growth. After these adjustments, fire losses for the last twelve months were approximately $1.03 per capita as compared with an average of 97 cents during the eight-year period 1946-1953 inclusive, and $2.10 in 1913. The eight-year average (adjusted for the rise in construction costs) *is the lowest per capita fire loss ever attained in this country.*

In the face of lower premium rates and rising losses, the profit margin on "straight" fire insurance is in process of being squeezed from both ends. During the first quarter of 1954, a group of representative companies writing a large proportion of their total business in fire insurance proper realized a profit of only 2.8% on premiums earned as against 4.8% reported during the comparable quarter last year.

Automobile Liability and Property Damage

Net premium volume in automobile liability and property damage coverages has exhibited phenomenal growth over the last ten years; a decade ago, 10.2% of volume was represented by these lines —today, they make up 19.2% of the business written by the major companies noted. Higher rates, a much

Important Data on Leading Fire and Casualty Insurance Companies

	Approx. Market Price	1953 Earnings Per Share	Price Times 1953 Earnings	15-Year Average Underwriting Profit Margin	Estimated Average Earning Power	Price Times Average Earning Power	Indicated Annual Dividend	Approx. Yield	Net Worth Per Share 12/31/53	Price to Net Worth
Aetna (Fire) Ins.	60¼	$ 4.32	13.9	2.4%	$ 4.75	12.7	$ 2.40	3.98%	$ 96.13	62.7%
American Equitable	33⅝	2.65	12.7	—0.6	2.50	13.5	1.70	5.06	60.31	55.8
*American Insurance	29⅝	2.62	11.3	4.0	2.60	11.4	1.20	4.05	36.14	82.0
*American Re-Insurance	24	2.23	10.8	7.3	2.25	10.7	0.80	3.33	32.73	73.3
American Surety	61¾	4.60	13.4	4.9	6.50	9.5	3.00	4.86	102.11	60.5
Continental Casualty	128	6.79	18.9	6.0	8.00	16.0	2.60	2.03	75.25	170.1
Continental Insurance	83¾	5.45	15.4	6.4	6.25	13.4	3.00	3.58	94.47	88.7
Federal Insurance	31⅝	1.86	17.0	16.2	2.25	14.1	0.70	2.21	28.22	112.1
Fire Ass'n. of Phila.	51¼	3.36	15.3	2.0	3.50	14.6	2.20	4.29	70.78	72.4
Fireman's Fund	60½	4.22	14.3	6.7	4.25	14.2	1.80	2.98	57.59	105.1
*Firemen's Ins. (Newk.)	32⅛	3.61	8.9	2.4	3.50	9.4	1.00	3.11	44.49	72.2
General Reinsurance	50	4.68	10.7	4.4	4.25	11.8	1.80	4.32[1]	70.35	71.1
Glens Falls Insurance	67¾	5.11	13.3	5.8	6.00	11.3	2.00	2.95	79.37	85.4
Great American	39¼	2.86	13.7	3.7	3.00	13.1	1.50	3.82	45.63	86.0
Hanover Fire	39⅝	2.97	13.3	1.9	3.25	12.2	1.80	4.54	67.01	59.1
Hartford Fire	165½	10.49	15.8	7.2	11.25	14.7	3.00	1.81	142.19	116.4
Home Insurance	44⅛	3.07	14.4	2.9	3.50	12.6	2.00	4.53	59.23	74.5
Ins. Co. No. Amer.	92	5.43	16.9	6.6	5.25	17.5	2.50	2.72	74.91	122.8
*Maryland Casualty	31⅛	3.23	9.6	6.1	3.00	10.4	1.20	3.86	29.03	107.2
*Massachusetts Bndg.	27	2.63	10.3	3.2	3.25	8.3	1.20	4.44	38.04	71.0
National Fire	79	5.73	13.8	0.8	5.50	14.4	3.00	3.80	127.74	61.8
National Union Fire	44⅛	2.83	15.6	2.9	3.75	11.8	2.00	4.53	55.05	80.2
*New Amsterdam Casualty	45¼	4.26	10.6	3.8	5.50	8.2	1.65	3.65	69.52	65.1
North River	33¼	2.54	13.1	5.5	2.50	13.3	1.40	4.21	43.82	75.9
Phoenix Insurance	102	5.58	18.3	4.3	7.50	13.6	3.40	3.33	143.95	70.9
Providence Washington	28¼	—1.60	.....	1.7	2.50	11.3	1.50	5.31	46.95	60.2
St. Paul F. & M.	44¾	3.18	14.1	7.9	3.00	14.9	1.00	2.23	32.18	139.1
Springfield F. & M.	50½	3.97	12.7	3.1	4.25	11.9	2.00	3.96	81.14	62.2
*Standard Accident	56½	7.69	7.3	4.8	5.50	10.3	1.80	3.19	66.55	84.9
*United States Fid. & Gty.	69¾	6.37	10.9	8.4	7.25	9.6	2.00	2.87	68.32	102.1

1—Including 20% stock dividend payable June 30, 1954.

*—Most attractive from price standpoint.

larger number of automobiles on the roads, and additional and more stringent financial responsibility laws contributed to this great upsurge in premiums.

During the last decade, cyclical fluctuations in underwriting results on the automobile "third party" lines have been most violent. Immediately after World War II, companies writing this coverage began to experience the adverse effects of more and higher claim costs resulting from inflation in conjunction with the return of large numbers of automobiles to the roads upon elimination of gasoline rationing. Premium rate increases during the 1945-1947 period enabled operations to return to the black by 1948, but the continued inflationary trend again resulted in underwriting losses from 1950 through 1952.

By 1953, however, substantial improvement in experience resulted from additional rate increases granted during 1951 and 1952; it is estimated that the increases permitted on these lines during this interval, averaged more than 30% on a nationwide basis. While a large proportion of the benefit of these rate adjustments was reflected in the 4½% (approximately) profit margin realized on this business in 1953 (as against an average loss of 5.3% during the two prior years), the full accrual of such increases to insurance company earnings will not be reflected until this year and a further betterment of profit margins may be reasonably expected.

Automobile Physical Damage

Automobile fire, theft, collision and comprehensive insurance has become increasingly important as a result of the record number of automobiles on the road. Now representing 11.0% of the total volume of business written by the major insurance companies listed (as against 7.0% of premium volume in 1943), this coverage recently has been one of the most profitable written with an average profit margin of more than 15% having been realized during the last five years.

The resumption of full scale driving in conjunction with skyrocketing repair costs put this line deeply into the red immediately after World War II, but the initiation of sharply higher rates produced substantial profits by 1948 which have continued to the present time. However, as in the case of fire insurance, 34 states have reduced premium rates on these coverages during the last 18 months and a thinning out of profit margins seems a reasonable certainty.

Extended Coverage

Extended coverage insurance, which constitutes extension of the protection afforded by fire insurance policies to include certain additional hazards such as windstorm, tornadoes, explosions, riots, damage from falling aircraft, etc., is potentially one of the most hazardous lines written as no barriers exist to confine the destructive forces unleashed by nature at unexpected intervals in unsuspecting areas. The only major coverage in which the insurance industry reported a loss last year presents a pattern of sharply fluctuating underwriting results during the recent past.

After a profit on this line of about 13½% in 1949, the insurance companies were subject to one of the largest single losses in history (approximately $150 million) as a result of the tremendous windstorm of November, 1950. In that year, the industry paid out $1.50 for every $1.00 it earned on this line, and in 1951, as a result of underestimation of loss liability on the storm, the line was again about 10% in the red. By contrast, 1952 was free of catastrophic losses, and a profit approximating 10% was earned.

However, in 1953, Mother Nature wreaked destruction throughout the nation in the form of an inordinately large number of tornadoes; 506 "twisters" were reported last year against a yearly average over a long interval of only around 150; it is estimated that the dollar loss in these disasters approximated $175,000,000, four times greater than any previous year. While all of the major companies writing a nationwide business in this line suffered from these catastrophes, the amount of loss in individual cases varied substantially. Since tornadoes tend to create havoc in very limited areas, a large degree of chance played a part in last year's experience. Of the companies listed, the 22 writing a reasonable volume of this business averaged a loss of 14.7% on premiums earned—however, 8 of the companies had losses of more than 20%, 10 lost between 10% and 20%, and 4 had losses of less than 10%.

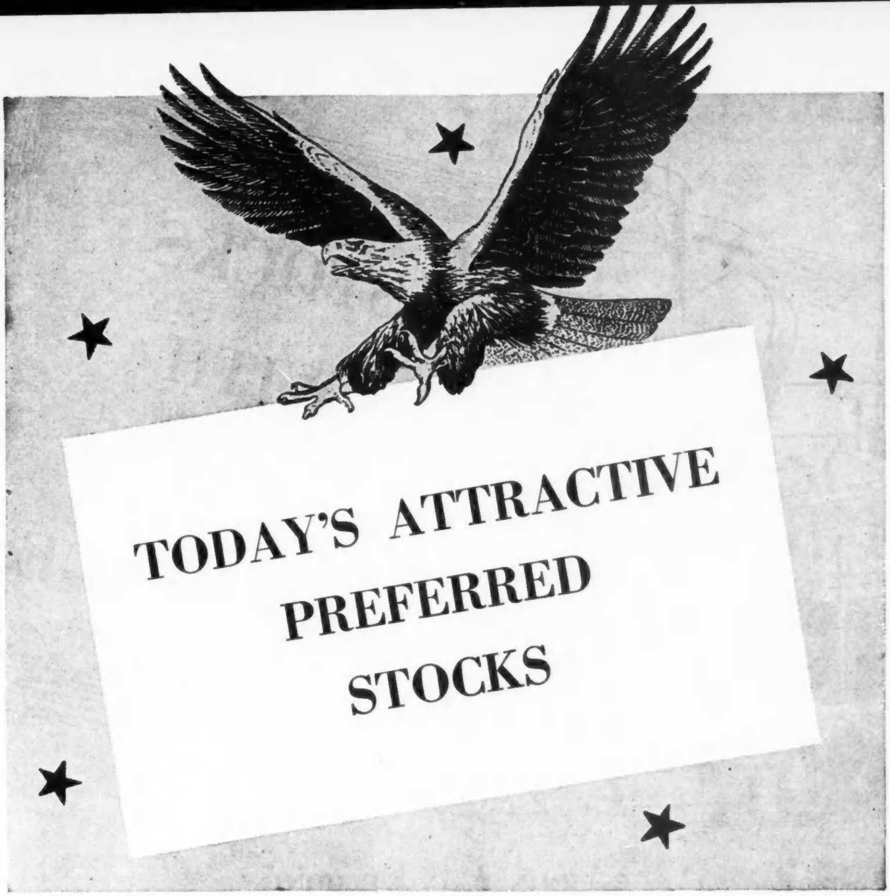
Thus far, 1954 underwriting has been rather profitable although, with 6½ months of the year still to pass, no prediction can be made as to full year experience. Assuming a continuation of the favorable trend, however, those companies suffering the largest losses last year could be reasonably expected to show the best improvement in 1954.

Investment Results

With underwriting (*Please turn to page* 428)

Appreciation Aspects of Selected Life Insurance Stocks

	Approx. Current Market Price	% Gain in Market Price Since: 1953 Low	% Gain in Market Price Since: 1948 Low	% Gain in Insurance-in-Force 1953 Over 1948	1953 Gain Per Share From Insurance Operations	Price Times Gains From Insurance
Aetna Life	126	87.4%	486.0%	73.9%	$ 10.44	12.1
Columbian National	90	56.5	203.8	39.4	7.05	12.8
Connecticut General	310	77.1	845.1	95.1	23.94	12.9
Continental Assurance	145	38.1	550.2	146.1	5.52	26.3
Franklin Life	63	113.6	n.a.	133.4	2.51	25.1
Gulf Life	25¼	43.3	n.a.	57.1	1.73	14.6
Jefferson Standard	71	67.6	425.9	50.4	4.17	17.0
Kansas City Life	930	106.7	431.4	31.0	79.02	11.8
Life & Casualty, Tenn.	28½	52.0	185.0	53.2	1.08	26.4
Life Ins. Co. of Va.	93	62.4	86.0	41.5	6.00	15.5
Lincoln National Life	260	68.8	845.5	53.5	18.85	13.8
Monumental Life	71	54.3	228.7	29.4	5.13	13.8
Natl. Life & Acc'nt., Tenn.	63	57.5	303.8	77.2	3.86	16.3
Southwestern Life	105	54.4	84.2	52.8	9.50	11.1
Travelers Insurance	1200	68.5	410.6	57.9	116.80	10.3



TODAY'S ATTRACTIVE PREFERRED STOCKS

By GEORGE L. MERTON

For the investor desirous of giving his investment portfolio greater flexibility by including good quality preferred stocks in proper relationship to bond holdings, stocks and cash reserves, the problem of finding high-grade senior capital stock issues yielding more than from three to four per cent has become increasingly difficult.

Except for a short period of slightly lower prices that reflected the Government's temporary tightening of money rates last year yields on medium and high-grade bonds and high-grade preferred stocks have declined almost steadily. For instance, average yields on the best grade corporate bonds declined from a June, 1953, high of over 3.4 per cent to a low this year of around 2.8 per cent, although recent lower prices, largely reflecting a temporary congestion of new bond issues does not indicate a reversal of the trend to lower yields.

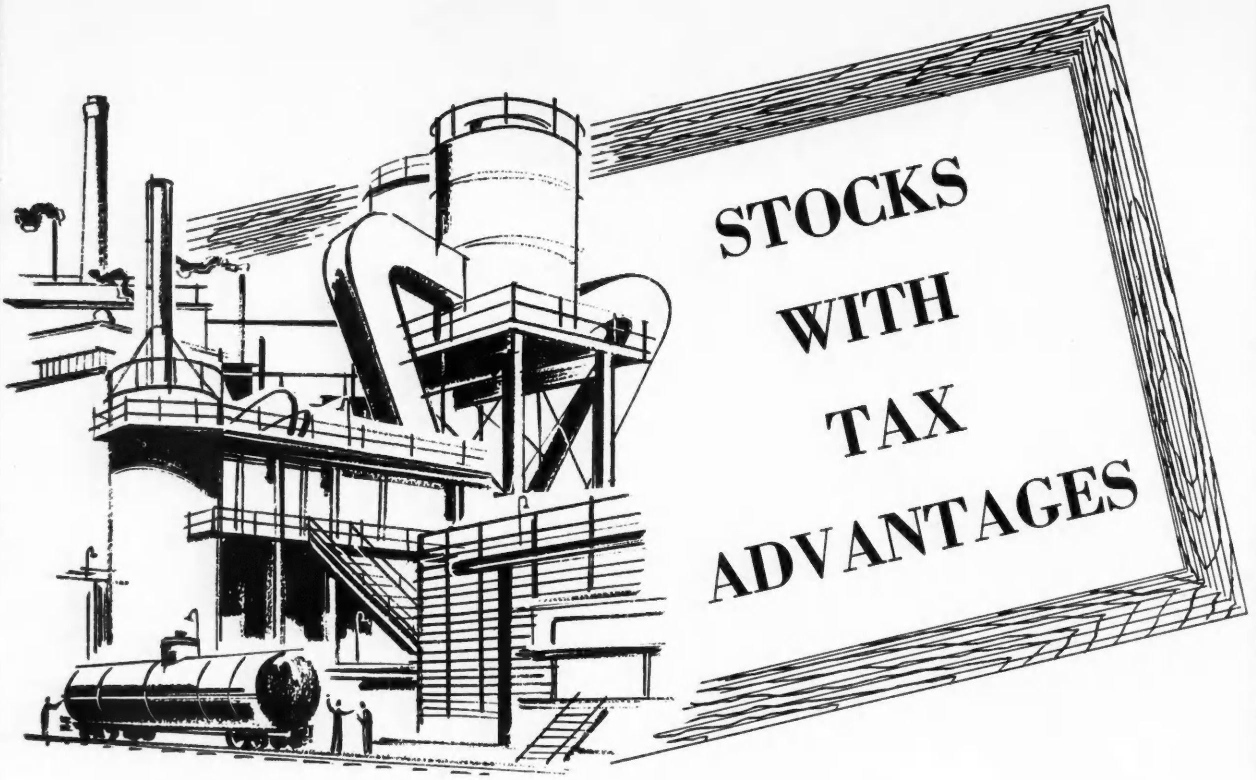
Steadily diminishing yields on both medium and high grade bonds has increased the demand for higher yielding preferred stocks. From a June, 1953, high of 4.48 per cent, average yield on the better grade preferred issues has declined to current level around 4.02 per cent. Obviously, there has been a material price appreciation in preferred stocks of sound investment quality. Nevertheless, for investors seeking liberal income yields from fixed income securities there are still opportunities for commitments in good grade preferreds currently priced to yield 5 per cent or better. In the accompanying tables we have listed 10 such preferred issues and show their earnings records on the basis of times dividend earned in the last two years, their price range since 1952 to date, recent price and current yield. It will be noted that many of these selected issues are non-callable, (*Please turn to page* 431)

10 Good Grade Preferred Stocks

Issue	Call Price	Div. Rate	Times Earned 1952	Times Earned 1953	Price Range 1952 to Date	Recent Price	Yield %
St. Louis-San Francisco Ry	100	$ 5.00	4.64	3.92	77½- 60½	65	7.5
Crucible Steel	110	5.00	3.61	3.47	92½- 68¾	80	6.2
Southern Railway	50	2.50	9.28	11.06	45½- 36¼*	43½	5.7
Virginian Railway	n.c.	1.50	4.11	3.28	31 - 25⅛	26⅛	5.6
Jones & Laughlin Steel	105	5.00	13.27	21.13	90½- 82	88½	5.6
General Cigar	n.c.	7.00	3.79	4.30	129½-115	127	5.5
American Sugar Ref.	n.c.	7.00	2.50	2.10	135½-120½	129½	5.4
Worthington Corp.	105	4.50	11.88	12.94	88¾- 75	85½	5.2
International Nickel	120	7.00	30.45	27.76	138 -130¾	135	5.1
Chicago Rock Island	105	4.50	6.22	7.66	101¼- 81¾	100	5.0

*—Adljusted for 1953 2-for-1 stock split.

STOCKS WITH TAX ADVANTAGES



By JOHN D. C. WELDON

Although the American taxpayer has been granted some relief by a cut in income tax rates, effective last January 1, and owners of dividend paying preferred and common stocks look forward with some hope that Congress will soon enact the House Ways and Means Committee's recommendations for reducing double taxation on dividends, stock investors, seeking to further ease their tax burden, might do well to give consideration to issues on which dividends are either wholly or partially tax exempt.

There are, of course, Federal, state and local government bonds that are wholly tax free, but the low yields on such securities make them unattractive to any but investors with comparatively large incomes. On the other hand, there are a number of stocks on which dividends are either wholly or partially exempt from the income tax, thus providing an advantage to investors in the higher income tax brackets as well as to the smaller investor desirous of increasing his income from dividends avoiding, at the same time, elevating himself into a higher tax bracket.

Among groups of stocks according investors at least a portion of tax free income in the form of dividends are a few representing corporations that have gone through reorganization in the course of which they came into possession of substantial assets in the form of investments that had been acquired earlier at a high cost. Under a ruling by the Bureau of Internal Revenue, these investments, in certain instances, can be liquidated for a loss in excess of current earnings and the dividend paid on the reorganized company's shares can be considered a return of capital rather than as a taxable income.

General Precision Equipment

A good illustration of this type of situation is the *General Precision Equipment Corp.*, successor by reorganization to General Theatres Equipment, Inc., which at the time owned a substantial block of Twentieth Century-Fox Film common shares that had been acquired at materially higher prices than have since prevailed. Since then 20th Century-Fox, in compliance with a court decree, divested itself of its motion picture theatre properties which were taken over by National Theatres, Inc., a development resulting in GPE coming into ownership of a sizeable block of National Theatres stock. Although operations of General Precision Equipment have been profitable over a number of years—1953 net for the common was equal to $5.09 a share—dividends paid on its common stock at the rate of $1.00 a share for the last several years have been ruled by the Internal Revenue Bureau as being nontaxable. This ruling is based on the company's selling enough of its holdings of its film company and theatres company stock to establish a loss on the amount of shares liquidated sufficient to offset actual earnings from operations.

As General Precision Equipment still holds 42,100 shares of each of the two companies—it sold 3,900 shares of each last year—some time may elapse before complete liquidation of these holdings, if that is desirable, is effected or the price of the issues rise to a point where their sale would provide only a limited loss or perhaps a profit. A recent quotation

of 37½ for GPE common establishes a tax-free yield, based on 1953 dividend payments, of 2.6%. So far in 1954 dividends of 80 cents a share have been declared, but whether these and any additional payments will be tax-exempt hinges on further liquidation of the film and theatre companies' stocks and what ruling the Internal Revenue Bureau will hand down covering this year's distributions.

Such rulings are always subject to change, in addition to often being complicated, creating uncertainties as to these tax advantages and the length of time on which they may be dependably relied. Also in the case of General Precision and in most similar instances, tax-free dividends must be applied against the cost of the stock, meaning that if and when the shares are sold the investor will be put in the position where he will be compelled to pay a greater sum as a capital gains tax.

Stocks Paying Wholly Income Tax-Free Dividends

	Net Per Share 1953	Div. Paid In 1953 (Tax Free)	Recent Price	Yield
Electric Bond & Share	$ 1.38	$ 1.25	20½	6.1%
General Precision Equipment	5.09	1.00	38	2.7
Gen. Precision Equip. cr. pfd.	27.40	.725	76	.9
Pennroad Corp.	.54	1.00	13	7.6
Shattuck Denn Mining	(d) .08	.125	8	1.5
Transamerica Corp.	2.82	1.65	32	5.1
United Corp.	.24	.24	5½	4.3

(d)—Deficit.

Electric Bond & Share

Electric Bond & Share Co., which has been divesting itself of certain of its holdings through distribution of these shares to its stockholders during the last five years is likely to continue the process through this year and next. The company has large holdings of securities in its portfolio which are being gradually liquidated. Among these is common stock of the United Gas Corp., that was carried by Electric Bond & Share in its Dec. 31, 1953, balance sheet at a valuation of a little more than $18 million but which on the same date was valued in the market at $46.3 million. Last year, holders of Electric Bond & Share's capital or common stock received in lieu of cash dividends, two payments of United Gas Corp. stock totaling 4.6 shares for every 100 EB&S stock owned. In addition, these same stockholders received 17 shares of United Gas stock on the same basis, payment being designated a capital distribution. None of these payments, the total value of which was $5.78 per one share of EB&S stock computed on the market value at the time of each distribution, was taxable as income for Federal income tax purposes. This total represents $1.25 market valuatian for the two dividend distributions and $4.53 a share valuation for the capital distribution. However, the tax cost basis of EB&S stock with respect to which each distribution was made had to be apportioned between the latter shares and United Gas stock so distributed on the basis of market value of each on the day of each distribution. Another dividend amounting to 1.8 shares of United Gas Corp., for each 100 shares of EB&S stock held is payable this June 28.

United Corp.

United Corp., is another company that has been paying wholly tax exempt cash dividends for several years, these distributions being designated as "return of capital." The company, formed during the bull market days of 1929, has been liquidating various holdings in public utility companies thus establishing losses in excess of per share income in dividends. Last year, for instance income in the form of dividends received on its holdings totaled 25 cents a share, but losses established from stock sales enabled the company to pay 20 cents a share in dividends that were ruled totally tax-free. Of course, such distributions must be applied against the cost of United Corp. shares thus adjusting their tax cost basis.

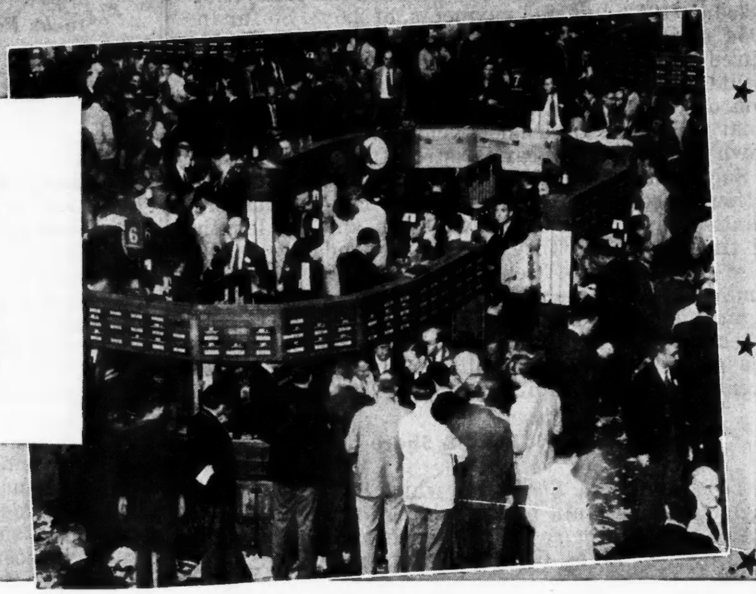
At times, a few mining companies when making dividend distributions, will designate what portion of each payment represents actual earnings and the amount representing depletion of ore reserves. The latter sum is considered as a return of capital and therefore free of income tax for Federal income tax purposes. Payments of dividends, or part of dividends, from depletion reserves are not standard practice among the mining companies, anymore than it is among the petroleum or natural gas producers who are also allowed comparatively liberal depletion charges, but prefer to utilize these funds for expansion or acquiring and developing new properties. An exception to this rule is *Great Northern Iron Ore* whose beneficial interest certificates, listed on the New York Stock Exchange, represent a trust controlling vast properties located in the Mesabi iron ore district of Minnesota. Since all or the greater portion of these properties are leased to operating mining concerns, and the fact that administrative and general expenses are relatively small, the trustees can afford to order the distribution of virtually all of the annual earnings, plus reserves set up for depletion. Last year, for instance, net earnings amounted to $2.00 (*Please turn to page* 431)

Stocks with Partially Income Tax-Free Dividends

	Net Per Share 1953	Total Div. Paid 1953	Tax Free Portion	Portion Treated as Capital Gains	Recent Price	Yield
American International Corp.	$ .97	$ 1.60	....	$ .63	21	7.6%
Anaconda Copper	3.52	3.00	$ .76	....	36	8.3
General Public Service	.14	.30	....	.1617	4	7.5
Great Nor. Iron Ore	2.00	2.50	.55	....	21	11.9
Lehman Corp.	2.15[1]	2.02[2]	....	1.04[2]	38	10.6
Natomas Co.	.03	.30	.2537	....	5	6.0
Technicolor, Inc.	1.23	1.10	....	.2780	12	9.1
U. S. & Foreign Securities	2.12	4.50	....	2.87	63	7.1
West Indies Sugar	1.24	1.00	.936	....	18	5.5

1—Estimated for fiscal year June 30, 1954 2—Adjusted for 1953 2-for-1 stock split.

FOR PROFIT AND INCOME



How Much?

Purely technical corrections in an uptrend market rarely start with as violent a fall as the June 8 spill of 6.96 points in the Dow industrial average; and in the modern market they have rarely exceeded 10% from high to low. Thus, it took a major news shock—the start of the Korean war—to effect an intermediate reaction of about 13% in the average in June-July of 1950. Up to this writing, the maximum decline from the June 1 high in closing levels has been less than 3%. It could be that the thinness of the market explains the violence of the June 8 break—but it has been a basically thin market for some years. So, whether we have seen the start of a "correction," or a downswing of some scope based on a psychological shift, or a minor bear market remains to be seen. So far as we can see, the fundamentals rule out a major bear market. It is interesting, and perhaps significant, that bear markets since 1929 have been progressively smaller in scope, as follows in approximate percentages of decline: 1929-1932, 89%; 1937-1938, 48%; 1939-1942, 40%; 1946-1947, 23%; 1948-1949, 16%; and January-September, 1953, 13%. Assuming on partial evidence that the back of the advance since last September has now been broken for at least some time to come, we would tentatively be on the look-out for effective support somewhere in the area of 305-295 for the industrial average, against high of 326.67—for a fall of roughly 7% to 10%, cancelling roughly a third to half of the eight-month rise.

Stocks

Up to this writing, market reaction has not gone far enough to take more than a small minority of stocks to new lows for the year or longer; nor to prevent a few from edging up to new highs. It is still—and undoubtedly will remain—a selective market. Considerable interest attaches to strong stocks in weak markets, even though it remains to be seen whether they continue to "buck the trend." Examples at the moment include Brown Shoe, American Sugar Refining, Dresser Industries, Butler Bros., Cannon Mills, Eagle-Picher, Louisville & Nashville, Flintkote, Motorola, Republic Pictures, Ruberoid, and U. S. Playing Card. Among the conspicuous "weak sisters" at present are a few stocks of more or less prominence, including the following: Emerson Radio, American Brake Shoe, Hershey Chocolate, Merck, Twentieth Century-Fox and Zenith Radio.

Oils

Probably the main reason for reaction in the oil-stock group is sharp prior advance, in which excess on the industry's supply side was ignored. The sell-off, however, has been accelerated in the case of stocks of companies with important natural gas production by the recent Supreme Court decision (in the Phillips Petroleum case) which requires Federal Power Commission regulation of well-head prices of gas sold to interstate pipe lines. Investors interested in oil or natural gas potentials should not get too excited about this one way or the

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1954	1953
Halliburton Oil Well Cementing	Quar. Mar. 31	$1.22	$ .81
Peoples Gas Light & Coke Co.	Quar. Mar. 31	4.44	3.55
American Tobacco Co.	Quar. Mar. 31	1.26	.94
International Paper Co.	Quar. Mar. 31	1.55	1.39
Pure Oil Co.	Quar. Mar. 31	1.61	1.10
U. S. Gypsum Co.	Quar. Mar. 31	3.99	2.95
Bucyrus-Erie Co.	Quar. Mar. 31	1.12	.83
National Lead Co.	Quar. Mar. 31	.67	.54
Seaboard Oil Co.	Quar. Mar. 31	1.19	.95
Curtiss-Wright Corp.	Quar. Mar. 31	.39	.28

other. To the extent that the result is a check on upward tendencies in gas prices, potential earnings of gas producers (mostly big oil companies) will be somewhat lower than they would otherwise be; but it is questionable whether the difference in over-all earnngs of major oil companies could be detected with the naked eye. Presumably pipe line companies will benefit to some extent via more stabilized costs of purchased gas. Drastic change is unlikely. The present Commission is a moderate one, mindful of the need of adequate encouragement of deve op-ment of gas reserves. Finally, there will be a fight in Congress at the next session (the time is too short in the present one) to exempt gas producers from FPC rate control. The outcome is problematical. (See article in this issue).

"Defensive"

Capital can not be fully insulated against market fluctuation except when it is held as cash, a savings deposit, in short-term Treasury obligations or non-marketable Savings Bonds. Defensive stocks, in the sense of immunity to market fluctuation, are never more than partly so. In its common usage, the term is so inaccurate that it would be better to discard it and simply call the stocks to which it has been applied income stocks with relatively stable dividends. In major bear markets of the past, including 1929-1932, 1937-1938 and 1939-1942, so-called defensive stocks suffered drastic declines—so much so that it was no great consolation to holders thereof to note that the general average of stock prices went down moderately more. However, income stocks suffered relatively little in the minor bear markets of recent years, as in 1948-1949 and the first nine months or so of 1953. Every tangible factor argues against serious vulnerability in their present position. You can probably buy typical good income stocks at some concession by waiting for more market reaction; but, allowing for institutional demand, the concessions probably will be fairly small.

Preferreds

Good-grade preferred stocks are selling on an average yield basis of slightly over 4%, returning about 38% more than high-grade corporate bonds. In the postwar period the spread has ranged from around 32% in 1946 to 50% in 1949—but that was with bond interest and preferred-stock dividends subject to the same tax treatment. The Senate Finance Committee has approved the tax credits for dividend income carried in the House version of the tax bill. Present indications are that they have a good chance of becoming law. If so, the net worth of dividend income will be materially increased. This should tend to narrow the spread between yields on high-grade preferred stocks improving in relative position. A few of the many preferred stocks suitable for purchase by income investors are Atchison $2.50, Federated Department Stores $4.25, General Motors $3.75, Pacific Gas & Electric $1.50, Pacific Lighting $4.50, and Union Pacific $2.

Selective

The selectivity patterns within the market can change considerably from week to week, given an extension of the downswing from the highs recorded June 1 by the Dow industrial average, and in late May by the rail and utility averages. So far the stock groups which have fallen most are those which either had exceptionally large prior advances in recent months or which are in more or less investment disfavor on the basis of industry prospects. Those in which sell-offs so far have been considerably wider than for the market as a whole include aircrafts, automobiles and auto parts, chemicals, liquor, coal, coppers, farm equipments, meat packers, machine tools, metal fabricating, oil, and steel.

Above-Average

Stock groups which have held up relatively well in reaction to date include building materials, electrical equipment, small-loan issues, food brands, food stores, department stores, mail order, shoes, sugar refiners, textiles and tobaccos. The last three, of course, had large declines earlier.

Pay-Off

Despite a number of dividend cuts and omissions here and there, the over-all outlook for 1954 payments remains excellent. So far this year, more companies have liberalized payments, whether by boosts in rates or via extra, than have moved in the other direction. Many have already passed on some of the benefits of EPT lapse to shareholders. However, there remain a number of candidates for dividend boosts, or additional boosts where some move has already been made. Among these possibilities, if not probabilities, are the following: American Chicle, Anchor Hocking Glass, du Pont, National Lead, National Tea, Eastman Kodak, National Biscuit, National Dairy Products, Pitney-Bowes and Wrigley.

Income Selections

As noted earlier, there may be modest gain by waiting for some recession in income stocks, instead of buying now. In this class, some that might be earmarked for watching are American Telephone, American Chicle and/or Wrigley, General Foods, National Biscuit, National Dairy Products, Brown Shoe, Life Savers, American Home Products, Sterling Drug, Borden, — and, of course, any of the many first-line electric utility stocks. This is merely a partial list. Others will be found in successive issues of the magazine, as conditions warrant.

DECREASES SHOWN IN RECENT EARNINGS REPORTS

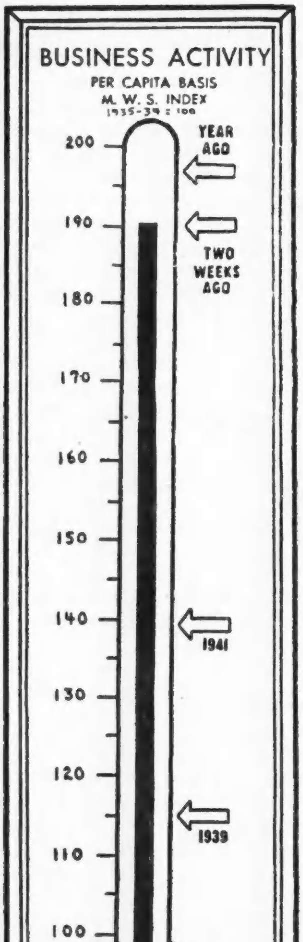
		1954	1953
Chrysler Corp.	Quar. Mar. 31	$ .88	$2.81
Electric Auto-Lite Co.	Quar. Mar. 31	.25	1.88
Link Belt Co.	Quar. Mar. 31	.80	1.12
Anaconda Wire & Cable Co.	Quar. Mar. 31	1.49	2.28
Robertshaw-Fulton Controls	Quar. Mar. 31	.49	.63
Admiral Corp.	Quar. Mar. 31	.64	1.30
Ashland Oil & Refining Co.	Quar. Mar. 31	.31	.47
American Smelt. & Refining	Quar. Mar. 31	.58	.73
Hershey Chocolate	Quar. Mar. 31	.64	1.08
Standard Coil Products	Quar. Mar. 31	.28	1.18

The Business Analyst

What's Ahead for Business?

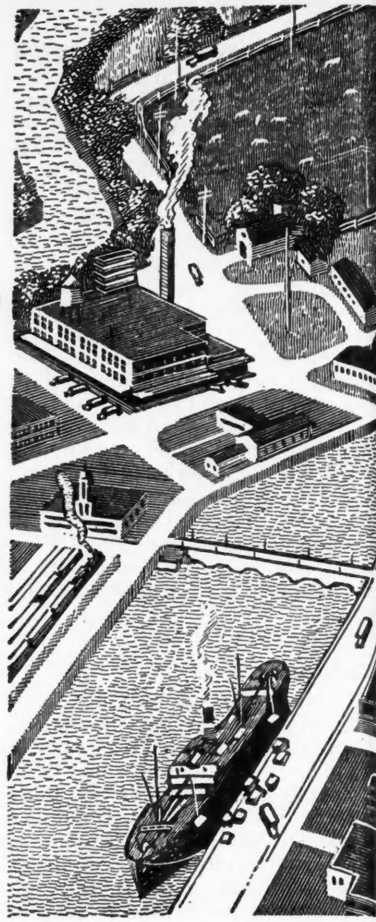
By E. K. A.

The comparatively slow pace of inventory adjustment since last Fall is one of the perplexing problems in the current business situation. True, inventories have been lowered substantially from the levels that were considered as topheavy some ten months ago. Total business inventories at the end of April, according to the Department of Commerce, were valued at $79.6 billion as against the all-time peak of $82.0 billion recorded last September. Presumably, some further contraction has occurred in the interim although there is no evidence that the pace has been any more rapid. And, the reduction does not loom so importantly in view of the consideration that end April, 1953, inventories were $79.0 billion or slightly smaller than this year.



Total business sales during April registered some improvement while inventories continued to contract. But, even with the improvement in sales volume, the end-month inventories were equal to 1.69 months' sales, the same inventory-sales ratio as prevailed last September. At the end of April last year, the ratio was 1.57 months. Notwithstanding the contraction in inventories since last Fall, the inventory-sales ratio at end April was less favorable than a year earlier when the business world already was beginning to worry about the size of inventories.

The modest improvement in the ratio recorded during April, as a result of larger sales, may have been reversed during May. Production increased slightly, according to the Federal Reserve Board, while retail sales — after adjustment for seasonal variation — were off about one percent. This is not conclusive evidence of an uptrend in the overall business inventory-sales ratio although such data as are available point in that direction.



However, the overall comparisons tell only a part of the story. There has been much talk in recent month of retailers pulling in their horns on inventories and forcing manufacturers to carry larger stocks in order to be able to make quick shipments as needed. But, as a matter of fact, the reduction in retail stocks has been relatively insignificant, from $22.9 billion at end September, 1953, to $22.7 billion at the end of April. During this seven month period, retail inventories of durable goods declined while inventories of nondurables increased. This interesting trend reflects, in part at least, the fact that the slump in retail business has been confined almost entirely to durable goods.

It is somewhat difficult, of course, to reconcile the reported data with the stories circulating to the effect of heavy backing up of retail stocks of consumers' durable goods. Recently, for instance, it was reported widely that automobile dealers' stocks of new cars were 60 percent larger than a year ago. It also is difficult to understand why retailers' stocks of soft goods, adjusted for the usual seasonal variations, should have increased steadily in recent months to what appear to be the highest levels on record. In the light of sales volume, it would seem that soft goods retailers may have become a little too optimistic and may be obliged to pare their stocks somewhat.

Manufacturers' inventories on April 30 were $45.3 billion, down from the peak of $47.1 billion last September but slightly larger than a year ago. The contraction since last September was almost entirely in durables. Stocks of both durable and nondurable manufacturers were practically the same as a year earlier. The durable goods industries are operating at about a 10 percent lower rate than a year ago, while activity in the soft goods industries is down about 5 percent. One is forced to the conclusion that, unless both industrial activity and retail business register substantial improvement in the months ahead as a result of external forces, inventory adjustment still has some distance to go.

The Business Analyst

HIGHLIGHTS

MONEY & CREDIT—Investor interest in fixed income obligations revived in the first two weeks of June and price stability returned to the bond markets. The Federal Reserve Board took a hand in bolstering sentiment, buying $175 million of Treasury bills in the week ending June 9 on top of $75 million worth, purchased the previous week. This action, coupled with other factors, provided a big boost to the credit facilities of the weekly reporting member banks as evidenced by a jump in their excess reserves to $1.16 billion on June 9, double the previous week's excess reserves and $445 million ahead of a year ago. This liquid condition of the banks has provided a plethora of short-term money and the Treasury's new offerings of 91-day bills have been sold at rates as low as 0.616% on a yearly basis, the lowest in seven years.

The extremely low level of short-term yields has been accepted by many investors as a signal to purchase longer term issues with Federal obligations especially favored. A special feature in the two weeks ending June 14, was the Treasury's longest term maturity, the 3½s of 1983-1978, which rose 1¼ points to close at 110.0. Other Treasury bonds had a more sedate advance with the Victory 2½s of 1972-1967 up ⅜ of a point and the 2⅜s of 1958 gaining a similar amount. In the corporate field, steadiness rather than advancing prices were the order of the day and the yield of an average of best-grade corporates was at the same level in mid-June as it had been two weeks earlier. Demand for corporates had been restricted by the large amounts of unsold new issues which had piled up in underwriters' hands and these were overhanging the market. The offering of $100 million of 25-year Aluminum Company of America debentures on June 9 provided a good test of the market's powers of absorption and when the issue was quickly sold out at a 3% yield, demand quickened for other recent offerings which were still available at relatively attractive yields.

Municipal obligations have also been steady of late despite the record outpouring of new issues in this field. In May alone, $763 million worth of tax-exempts were floated and June will be almost as busy. However, it looks as though succeeding months will witness a definite respite in the volume of new offerings of both corporate and municipal obligations. This anticipated reduction in the supply should operate on the side of firmness for bond prices this Summer.

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TRADE—Consumer buying in May fell below April results, according to preliminary estimates by the Commerce Department, which finds that retail sales, on a seasonally adjusted basis, were down 1% from April and 3% below a year ago. Apparel and auto sales were significantly lower last month while other types of goods for the most part showed negligible changes in demand.

Department stores have also experienced a drop in sales. In the two weeks ending June 5, the drop from a year ago amounted to 5% while in the four week period ending on the same date, the year-to-year decline was 6%.

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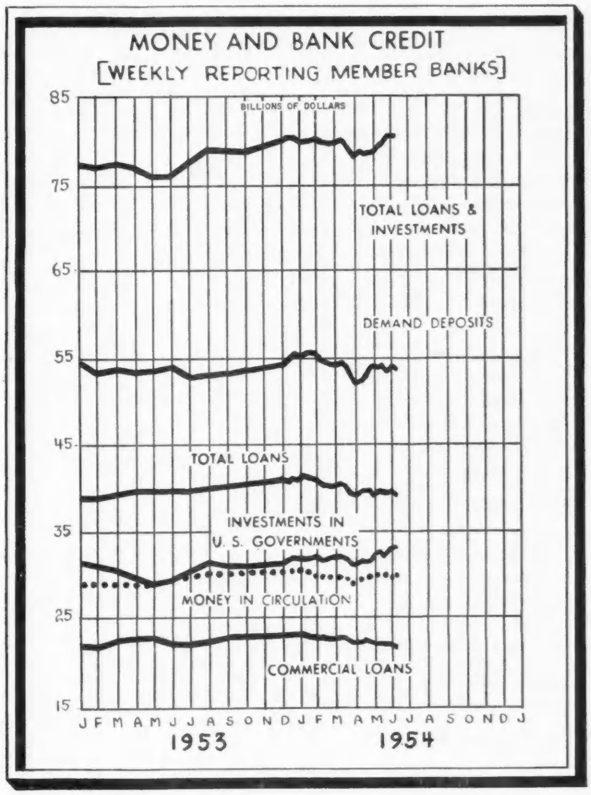
INDUSTRY—Industrial production picked up in May, according to the Federal Reserve Board's index which rose two points, after seasonal adjustments, to 125% of the 1947-1949 average. This was the first improvement in the index since last July and followed a month of stability attained in April. All three major components of the index, namely durables, nondurables and minerals, moved upward in May. There was improvement in output of steel, coal and iron ore. Production of major consumer durables moved up again and is now 13% above the low point reached in December. In this field, television production had the best gain in May. Auto output also was higher last month but slackened off a bit during the first week in June.



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COMMODITIES—Commodity prices eased in the week ending June 8 and the Bureau of Labor Statistics' comprehensive index of wholesale prices fell by 0.2% to 110.5% of the 1947-1949 average. For the second successive week, lower prices for farm products were most to blame for the drop with the index for this sector falling by 1.4% in the latest week. Livestock prices were lower while grains were mixed. Wheat and soybeans receded but corn and oats did better. Among industrial materials, higher prices were reached by hides, linseed oil, crude rubber, lead and zinc, but this was

(Continued on following page)

Essential Statistics

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor*
MILITARY EXPENDITURES—$b (e)	Apr.	3.6	3.5	4.5	1.6
Cumulative from mid-1940	Apr.	547.8	544.2	496.9	13.8
FEDERAL GROSS DEBT—$b	June 8	273.3	273.5	267.3	55.2
MONEY SUPPLY—$b					
Demand Deposits—94 Centers	June 2	53.9	54.4	53.7	26.1
Currency in Circulation	June 9	29.9	29.9	30.0	10.7
BANK DEBITS—(rb3)**					
New York City—$b	Apr.	60.5	64.1	52.0	16.1
344 Other Centers—$b	Apr.	96.1	97.5	95.4	29.0
PERSONAL INCOME—$b (cd2)	Apr.	282	283	283	102
Salaries and Wages	Apr.	189	190	193	66
Proprietors' Incomes	Apr.	49	50	49	23
Interest and Dividends	Apr.	23	23	22	10
Transfer Payments	Apr.	16	16	14	3
(INCOME FROM AGRICULTURE)	Apr.	16	17	17	10
POPULATION—m (e) (cb)	May	162.0	161.8	159.3	133.8
Non-Institutional, Age 14 & Over	May	116.1	116.0	114.9	101.8
Civilian Labor Force	May	64.4	64.1	63.0	55.6
Armed Forces	May	3.4	3.4	3.5	1.6
unemployed	May	3.3	3.5	1.3	3.8
Employed	May	61.1	60.6	61.7	51.8
In Agriculture	May	6.8	6.1	6.6	8.0
Non-Farm	May	54.3	54.5	55.1	43.2
Weekly Hours	May	41.6	41.4	42.1	42.0
EMPLOYEES, Non-Farm—m (lb)	May	47.9	48.1	49.5	37.5
Government	May	6.7	6.7	6.6	4.8
Trade	May	10.4	10.5	10.4	7.9
Factory	May	12.4	12.6	13.9	11.7
Weekly Hours	May	39.3	39.0	40.7	40.4
Hourly Wage (cents)	May	181.0	180.0	176.0	77.3
Weekly Wage ($)	May	71.13	70.20	71.65	21.33
PRICES—Wholesale (lb2)	June 8	110.5	110.7	110.9	66.9
Retail (cd)	Mar.	208.3	208.9	208.2	116.2
COST OF LIVING (lb2)	Apr.	114.6	114.8	113.7	65.9
Food	Apr.	112.4	112.1	111.5	64.9
Clothing	Apr.	104.1	104.3	104.6	59.5
Rent	Apr.	128.2	128.0	122.1	89.7
RETAIL TRADE—$b**					
Retail Store Sales (cd)	Mar.	13.8	14.0	14.4	4.7
Durable Goods	Mar.	4.8	4.7	5.2	1.1
Non-Durable Goods	Mar.	9.0	9.2	9.2	3.6
Dep't Store Sales (mrb)	Mar.	0.79	0.82	0.87	0.34
Consumer Credit, End Mo. (rb)	Mar.	27.2	27.5	25.9	9.0
MANUFACTURERS'					
New Orders—$b (cd) Total**	Apr.	23.1	22.8	25.7	14.6
Durable Goods	Apr.	10.1	10.1	12.7	7.1
Non-Durable Goods	Apr.	12.9	12.7	13.0	7.5
Shipments—$b (cd)—Total**	Apr.	24.4	24.1	26.4	8.3
Durable Goods	Apr.	11.5	11.4	13.4	4.1
Non-Durable Goods	Apr.	12.9	12.7	13.0	4.2
BUSINESS INVENTORIES, End. Mo.**					
Total—$b (cd)	Apr.	79.6	80.1	79.0	28.6
Manufacturers'	Apr.	45.3	45.8	45.2	16.4
Wholesalers'	Apr.	11.6	11.8	11.4	4.1
Retailers'	Apr.	22.7	22.6	22.4	8.1
Dept. Store Stocks (mrb)	Apr.	2.3	2.3	2.4	1.1
BUSINESS ACTIVITY—1—pc	June 5	190.6	190.2	197.2	141.8
(M. W. S.)—1—np	June 5	236.9	236.4	240.7	146.5

PRESENT POSITION AND OUTLOOK

(Continued from page 415)

offset by lower prices for burlap, wool tops and most cattle feeds. In the case of lead, this commodity turned down again in mid-month after the government rejected offers for the stockpile, intimating that the price was too high.

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Expenditures for **NEW CONSTRUCTION** rose to $3,082 million in May, a record for the month and 4.1% ahead of May, 1953, according to a joint report by the Commerce and Labor Departments. Private construction outlays amounted to $2,090 million in May, 3.8% above a year ago, while residential building at $1,064 million was 5.1% more than the corresponding 1953 month. Industrial building continued to decline and was 13.6% under last year while commercial building ran 31.8% ahead of a year ago. Spending for public construction last month was 4.8% above a year ago, aided by increased outlays for schools, highways, and sewer and water facilities.

Although dollar outlays for construction are running ahead of last year, part of this gain is the result of higher construction costs. Thus the index of such costs, compiled by Engineering News Record is now 3.2% ahead of a year ago and this means that actual volume of building is not doing as well as the figures on dollar expenditures would indicate.

* * *

Businessmen are planning to spend $6,686 million for **NEW PLANT AND EQUIPMENT** in the third quarter of 1954, a May survey by the Securities and Exchange Commission and the Commerce Departments, has revealed. This compares with outlays of $7,098 million in the corresponding quarter of 1953 and $7,034 million in the current quarter. The survey indicates that outlays for capital expansion have been declining since the fourth quarter of 1953, on a seasonally adjusted basis. The decrease has centered primarily in the fields of manufacturing and transportation, while outlays by public utilities, mining and commercial companies are holding their own. Motor vehicle manufacturers are planning a big increase in plant and equipment expenditures, with outlays for the first nine months of this year expected to top the corresponding 1953 period by approximately 50%.

* * *

Total **GAS SALES** have been running consistently ahead of year-ago figures and April, which saw consumption of 5,134 million therms, is no exception, running 4.1% above the corresponding 1953

and Trends

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor*
INDUSTRIAL PROD.—la np (rb)	May	125	123	137	93
Mining	May	112	111	117	87
Durable Goods Mfr.	May	135	134	156	99
Non-Durable Goods Mfr.	May	117	115	123	89
CARLOADINGS—t—Total	June 5	612	689	775	933
Misc. Freight	June 5	305	348	376	379
Mdse. L. C. L.	June 5	52	62	67	66
Grain	June 5	40	45	47	43
ELEC. POWER Output (Kw.H.) m	June 5	8,246	8,433	8,096	3,266
SOFT COAL, Prod. (st) m	June 5	6.5	7.2	9.0	10.8
Cumulative from Jan. 1	June 5	158.1	151.6	194.0	44.6
Stocks, End Mo.	Apr.	71.0	72.0	70.5	61.8
PETROLEUM—(bbls.) m					
Crude Output, Daily	June 5	6.5	6.4	6.4	4.1
Gasoline Stocks	June 5	174	173	151	86
Fuel Oil Stocks	June 5	47	46	42	94
Heating Oil Stocks	June 5	75	71	76	55
LUMBER, Prod.—(bd. ft.) m	June 5	242	257	254	632
Stocks, End Mo. (bd. ft.) b	Apr.	9.2	9.2	8.0	7.9
STEEL INGOT PROD. (st) m	May	7.5	7.0	10.0	7.0
Cumulative from Jan. 1	May	36.8	29.3	48.5	74.7
ENGINEERING CONSTRUCTION AWARDS—$m (en)	June 10	326	204	215	94
Cumulative from Jan. 1	June 10	5,873	5,567	6,803	5,692
MISCELLANEOUS					
Paperboard, New Orders (st)t	June 5	289	240	382	165
Cigarettes, Domestic Sales—b	Apr.	31	32	32	17
Do., Cigars—m	Apr.	486	477	520	543
Do., Manufactured Tobacco (lbs.)m	Apr.	17	18	19	28

PRESENT POSITION AND OUTLOOK

month. Natural gas accounted for 93.7% of total sales in April, with manufactured and mixed gas making up the remainder. In the twelve months ending April 30, 1954, sales of all types of gas came to 58,167 million therms, an 8.0% gain over the comparable twelve months ending April 30, 1953.

* * *

Outlays for **NATIONAL ADVERTISING** in April were unchanged from March and the index of such spending as measused by Printers' Ink remained at 165% of the 1947-1949 average. Expenditures in April were 4% ahead of a year ago with the best gain racked up by network television which achieved a 40% increase over last year. Newspapers did 3% better while magazines ran 1% under April, 1953. In the latter field, competition from daytime television programs catering to feminine viewers, adversely affected women's magazines which had a 6% drop in advertising from year-ago levels. Network radio has suffered even more drastically and in April was running 15% behind the corresponding 1953 month. On an over-all basis, national advertising expenditures are holding up much better than had been expected, stimulated no doubt by the increasing exigencies of mounting competition and buyer resistance in most lines of business.

b—Billions. cb—Census Bureau. cd—Commerce Dept. cd2—Commerce Dept., seasonally adjusted monthly totals at annual rate, before taxes. cdlb—Commerce Dept. (1935-9—100), using Labor Bureau and other data. e—Estimated. en—Engineering News-Record. I—Seasonally adjusted index (1935-9—100). la—Seasonally adj. index (1947-9—100). lb—Labor Bureau. lb2—Labor Bureau (1947-9—100). lb3—Labor Bureau (1935-9—100). lt—Long tons. m—Millions. mpt—At mills, publishers and in transit. mrb—Magazine of Wall Street, using Federal Reserve Board Data. np—Without compensation for population growth. pc—Per capita basis. rb—Federal Reserve Board. rb3—Federal Reserve Bank of N. Y.—1941 data is for 274 centers. st—Short tons. t—Thousands. *—1941; November, or week ended December 6. **—Seasonally adjusted.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

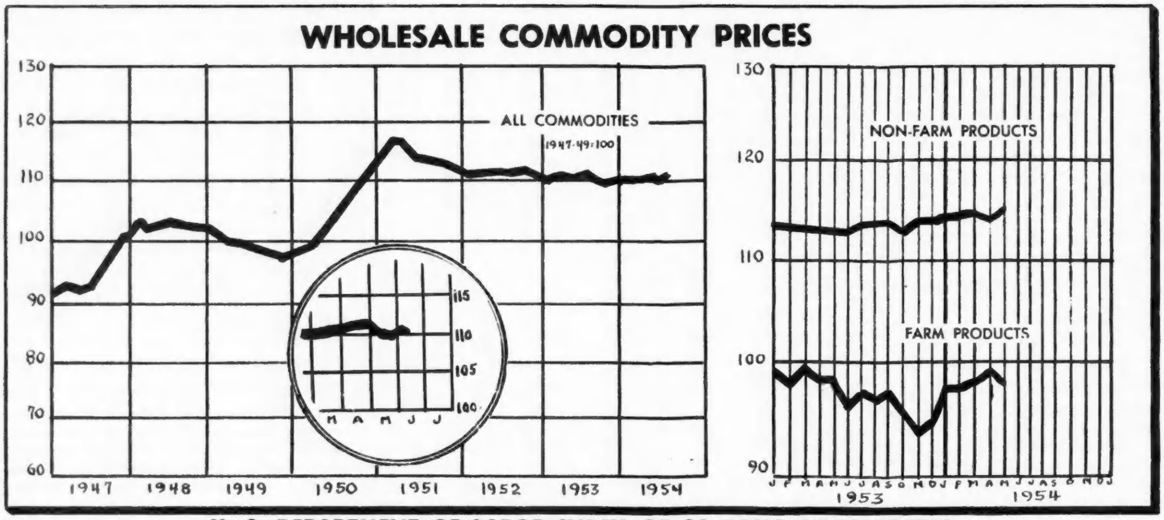
No. of Issues (1925 Cl.—100)	1953-'54 Range High	1953-'54 Range Low	1954 June 4	1954 June 11
300 COMBINED AVERAGE	221.6	177.2	221.5	219.0
4 Agricultural Implements	263.3	179.0	214.8	209.4
10 Aircraft ('27 Cl.—100)	596.4	330.3	596.4	584.2
7 Airlines ('27 Cl.—100)	693.9	492.6	561.6	556.6
7 Amusements	114.2	76.4	110.8	112.5
10 Automobile Accessories	289.4	213.4	255.2	252.9
10 Automobiles	49.4	38.4	41.6	41.2
3 Baking ('26 Cl.—100)	28.0	23.0	23.7	23.5
3 Business Machines	467.8	311.4	460.7	457.2
2 Bus Lines ('26 Cl.—100)	273.2	170.2	266.2	259.3
6 Chemicals	409.9	337.9	406.2	398.8
3 Coal Mining	15.4	9.0	10.0	9.4
4 Communications	69.3	58.6	68.7	67.5
9 Construction	79.0	57.9	79.0	77.7
7 Containers	603.3	456.9	593.5	588.6
9 Copper & Brass	176.4	125.3	175.0	169.5
2 Dairy Products	112.4	82.3	111.4	109.3
5 Department Stores	65.5	54.6	64.4	64.4
5 Drug & Toilet Articles	277.8	203.8	273.0	268.3
2 Finance Companies	482.5	341.8	466.6	458.6
2 Food Brands	211.8	185.0	211.8	209.9
2 Food Stores	142.3	113.0	139.6	135.5
3 Furnishings	79.2	59.6	63.7	61.8
4 Gold Mining	760.0	502.3	627.9	607.8

(Nov. 14, 1936, Cl.—100)	High	Low	1954 June 4	1954 June 11
100 HIGH PRICED STOCKS	145.7	114.4	145.7	143.3
100 LOW PRICED STOCKS	260.5	203.7	255.1	253.9
4 Investment Trusts	120.9	93.1	120.9	118.0
3 Liquor ('27 Cl.—100)	967.8	811.1	857.2	848.6
11 Machinery	252.8	181.0	250.8	248.8
3 Mail Order	128.6	101.0	122.0	120.9
3 Meat Packing	101.7	78.7	87.4	86.6
10 Metals, Miscellaneous	287.4	198.4	285.4	287.4A
4 Paper	590.6	394.9	581.4	576.8
24 Petroleum	505.0	376.5	501.0	492.9
22 Public Utilities	213.8	173.8	213.8	211.9
8 Radio & TV ('27 Cl.—100)	36.9	27.6	30.1	30.4
8 Railroad Equipment	64.1	49.1	59.4	57.8
20 Railroads	53.2	41.8	48.5	47.7
3 Realty	65.4	42.3	62.3	65.4A
3 Shipbuilding	360.0	228.7	357.1	354.2
3 Soft Drinks	433.3	339.0	425.7	418.1
11 Steel & Iron	161.1	122.8	158.5	155.9
3 Sugar	59.8	45.9	51.9	51.4
2 Sulphur	698.6	525.5	682.5	677.1
5 Textiles	162.2	101.3	114.5	118.5
3 Tires & Rubber	101.0	70.4	101.0	99.2
5 Tobacco	105.2	81.1	82.8	81.1
2 Variety Stores	319.5	274.4	285.9	283.0
16 Unclassified ('49 Cl.—100)	125.7	97.0	117.6	116.6

A—New High for 1953-'54.

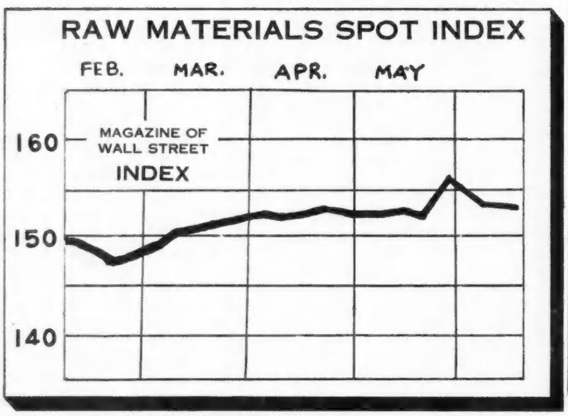
Trend of Commodities

Mixed trends have characterized the futures markets in the two weeks ending June 11. The Dow-Jones Commodity Index lost 0.44 points during the period as various factors acted to generate diverging trends among individual commodities. September wheat gained 1 cent in the two weeks ending June 11, despite reductions in Canadian export prices and talk of an international price war among exporters. The Department of Agriculture estimated that the total wheat harvest this year would equal 1 billion bushels, quite an increase over its previous forecast. At the same time, deteriorating prospects for a peace in Indo-China encouraged buyers. Farm legislation is in a fluid state with many Congressmen pressing for continuation of basic crop price supports at 90% of parity while the President threatens a veto of such a measure. September corn gained 2½ cents in the two weeks ending June 11 despite favorable crop indications thus far in the season and extensive Goverment liquidation of its holdings. From October 1, 1953 through May 28 of this year, the CCC has sold 105 million bushels of corn versus 46 million bushels in the comparable 1952-1953 period. Cotton prices have continued their sidewise movement in the fortnight ending June 11 with the October option losing a negligible 10 points to close at 34.10 cents. Farmers are taking sizeable amounts of cotton out of the loan and this has dampened bullish enthusiasm. Of 6,831,000 bales of cotton put into the loan this season, 1,400,000 bales have been repossessed, leaving a net of 5,431,000 bales still under supports. Rubber futures have responded to the crisis in the Far East. The September option gained 70 points in the two weeks ending June 11 to close at 23.70 cents and is now 220 points above the low which was set in March. The rise has taken place in spite of lower tire production this year.



U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES
Spot Market Prices—1947-1949, equals 100

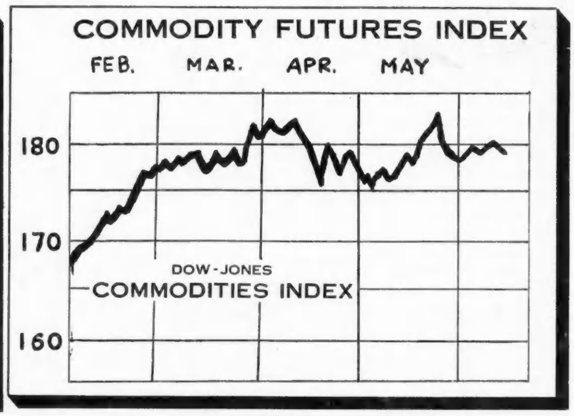
	Date June 11	2 Wks. Ago	3 Mos. Ago	1 Yr. Ago	Dec. 6 1941
22 Commodity Index	92.3	92.8	89.3	87.5	53.0
9 Foodstuffs	99.1	101.2	99.5	88.0	46.1
3 Raw Industrial	87.7	87.3	82.8	86.9	58.3
5 Metals	97.3	95.9	85.8	98.3	54.6
4 Textiles	87.6	88.2	87.0	89.9	56.3
4 Fats & Oils	71.2	73.5	74.7	56.1	55.6



14 Raw Materials, 1923-25 Average equals 100

Aug. 26, 1939—63.0 Dec. 6, 1941—85.0

	1953-'54	1952	1951	1945	1941	1939	1938	1937
High	162.2	181.2	215.4	111.7	88.9	67.9	57.7	86.6
Low	147.8	160.0	176.4	98.6	58.2	48.9	47.3	54.6



Average 1924-26 equals 100

	1953-'54	1952	1951	1945	1941	1939	1938	1937
High	181.9	192.5	214.5	95.8	74.3	78.3	65.8	93.8
Low	153.8	168.3	174.8	83.6	58.7	61.6	57.5	64.7

Keeping Abreast of Industrial and Company News

While aircraft, automobile and machine builders are striving to produce greater operating speeds the **Johns-Manville Corp.,** is meeting the challenge demanding means of stopping these machines faster and more safely. The company has almost 75 years experience in developing and manufacturing asbestos brake linings and friction materials, and within recent weeks opened the world's largest laboratory devoted to research and development in this field. Included in the laboratory's equipment is a giant new dynamometer that represents 10 years of research, engineering and design work by company scientists and engineers. It is capable of reproducing a wide range of braking conditions such as the wheel of a giant bomber or commercial airliner landing at 200 miles an hour, or of a train travelling at 150 miles an hour, to the low speed, high torque application typical of heavy duty earth-moving machinery.

With the acquisition of 4 Seasons, Inc., **General Foods Corp.,** further expands its operations in the food industry. Products of 4 Seasons include five different "Good Seasons" salad dressing bases which consumers mix with vinegar, oil, and water to produce finished dressings according to the formulas of a world famed chef. Other products are "Good Seasons" Seasoning Salt, Bar-B-Q Salt, and Italian Spaghetti Sauce Mix. Upon completion of the acquisition within the next two or three months, General Foods will integrate 4 Seasons with Perkins Products Co., one of its subsidiaries.

The red carpet will be literally rolled out for visitors to room 1748 during the June 21-July 2 exhibit at the Chicago Merchandise Mart where **E. I. duPont deNemours & Co.,** will display new lines of nylon carpeting as well as hundreds of samples of nylon upholstery fabrics in the newest shades, stylings, and textures. Tufted and woven floor coverings will represent the products of 20 leading manufacturers with more than 40 manufacturers being represented in the display of upholstery fabrics. The "red carpet" will be a luxurious all-nylon carpet in a vivid, eye-catching shade of red, extending the length of the 70-foot display area.

New airborne radar which will see through a storm and automatically draw a picture of the weather 150 miles ahead of a plane has been introduced by the **Bendix Aviation Corp.** Although military planes have been using airborne radar and some commercial airlines have tested that device its use from an economic standpoint alone would not be justified for commercial flight. The new Bendix radar is designed primarily for commercial airliners. It enables a pilot to see instantly the position, intensity and extent of turbulence of any storm over a wide range in front of him and its use enables American aviation to take another major step forward toward the "goal of safe, all-weather commercial flight."

Parke, Davis & Co., which supplied a large percentage of the vaccine used by the National Foundation for Infantile Paralysis in the recent nation-wide inoculation program involving about 650,000 children, has already started work on new facilities which will materially increase the firm's output of the vaccine. It is expected that they will be in full operation by next October. The plans call for the erection of a new building and the remodeling of a present building to accommodate several thousand monkeys, which have an important role in the production of vaccine. Kidneys and other tissues from the animals are used to grow the three types of virus in test tubes. The final product is tested in live monkeys for 28 days before it is pronounced safe and effective.

Recent completion of its Port Arthur, Tex., plant for the production of iso-octyl alcohol represents another milestone in **Gulf Oil Corp.'s** progress in the conversion of its raw materials to useful chemicals. The new plant has a capacity of about 9 million pounds per year of iso-octyl which is rapidly becoming an important industrial chemical in this country for use in the manufacture of plasticizers, synthetic lubricants, surface active agents, and agricultural chemicals. The new plant, designed to provide a high degree of product flexibility, is capable of several alternate products such as nonyl, decyl, tridecylm, and other higher alcohols.

Homemakers, throughout the country, when shopping in the supermarkets and other types of food stores are likely to be captivated by the new sparkling aluminum food containers designed by the **Reynolds Metals Co.,** to give food processors something new in which to package their products. These are anodized aluminum tumblers made with permanently-finished colors, suitable for such items as jams, jellies, peanut butter, baby foods, cheese and many others. At present they are being produced in five- and ten-ounce sizes. When their contents are used they are said to make attractive and useful table tumblers; the small size for fruit juices, etc., and the larger size for iced summers drinks which could be iced tea or something else.

The recently completed $4.5 million Fort Worth, Tex., plant of the **Chicago Pneumatic Tool Co.,** is now in full production on a complete line of oil well drilling equipment for the petroleum industry. The plant consists of three attached buildings, one designed as an office building, another as a cafeteria, and the third as a manufacturing plant, incorporating engineering facilities that make it an outstanding installation for its type and size.

Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities* at reasonable intervals.
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. No inquiry will be answered which is mailed in our postpaid reply envelope.
5. Special rates upon request for those requiring additional service.

Libbey-Owens-Ford Glass Co.

"As a subscriber to your Magazine for a good number of years, I would appreciate your stating latest earnings of Libbey-Owens-Ford Glass Co. and also any new products that are contributing substantially to sales volume."

F. I., Fort Lauderdale, Fla.

New products and large-scale building construction activity are credited with sustaining sales and earnings for Libbey-Owens-Ford Glass Co. thus far in 1954.

The company reported net earnings of $6,495,595 for the first quarter of 1954 equal to $1.25 a share, compared with $3,913,370, or 76c a share in the comparable quarter last year. In spite of a lower gross profit, net earnings increased as a result of lower general overhead and a decrease in the provision for federal income tax. Tax provision for the first quarter of 1954 was $8,060,000, compared with $11,611,000 in the same quarter last year.

Sales in the first quarter were considerably above the final quarter's sales of 1953 and almost equal to the corresponding record first quarter a year ago. This was attributed to the good demand for glass in the construction, furniture and automotive industries. The company has observed that the new "panoramic windshields, emphasizing safer driving visibility for motorists and new beauty of styling, introduced in certain 1954 cars, have proved to be an outstanding feature of new car design."

The Fibre Glass division at Parkersburg, West Va. has started manufacture of finer yarns for decorative textiles and draperies and there is a growing interest in new products of the Liberty Mirrow and Corrulux divisions.

Sales for the fiscal year ended December 31, 1953 were aided by increased automotive shipments, satisfactory showing by the building division, and growth of newer lines. Sales totaling $212,490,726, and net profit was $19,233,668, equal to $3.72 per common share based on 5,176,574 shares outstanding. This compares with 1952 net sales of $166,442,765, net profit $14,907,893, equal to $2.88 per share based on 5,167,392 shares outstanding.

Dividends in 1953 totaled $2.10 per share and $1.50, including an extra, has been paid thus far in the current year.

Creole Petroleum Corporation

"I am interested primarily in liberal income return and as Creole Petroleum Corp. provides a high yield, please present recent earnings and other pertinent data you have on the company."

P. I., Charlestown, W. Va.

Creole Petroleum is the largest producer of crude oil in Venezuela, accounting for close to 45% of the country's total production. Three refineries are operated in Venezuela. Consolidated net income for the three months to March 31, 1954 was estimated at $61,800,000, equal to $2.39 per share, against same quarter in 1953 net income of $52,300,000, equal to $2.02 per share.

Crude oil production of the Creole Petroleum Corp. in 1953 averaged 794,284 barrels daily and this was slightly below the 1952 daily average of 803,407 barrels daily. While over-all world demand for petroleum continued to increase in 1953, Venezuela did not share in this increase.

Net income for year 1953 amounted to $228,997,006, equivalent to $8.85 per share, as compared with $220,930,984, or $8.54 per share in 1952. The company's world-wide sales of crude oil and refined products decreased 1% in 1953, due principally to an 8% decrease in sales of crude and fuel oil to the United States and an 11% decrease in purchases by Eastern Hemisphere customers.

Expenditures for plant and equipment in 1953 were $94,440,175, as compared with $96,391,960 in 1952. Present indications are that the company's program of capital expenditures in 1954 will be somewhat higher. The company is hopeful that the Venezuelan government will grant new oil concessions in the reasonably near future. Additional refining capacity should add to the company's volume potential.

Earnings for the current year are expected to be satisfactory and dividends probably will be maintained at the recently increased $1.75 quarterly rate. While the stock is somewhat speculative in character, the indicated yield at current market is approximately 8% and this is a very generous return.

Creole Petroleum is a subsidiary of Standard Oil Co., New Jersey.

Seaboard Finance Co.

"I have 100 shares of Seaboard Finance Co. stock, it gives me a good income return, but I am wondering whether to retain it for longer term growth prospects."

E. S., Fort Wayne, Ind.

Seaboard Finance Co. is the fourth-largest loan company in the United States with 261 offices at

December 31, 1953. The stock currently is selling at around 27 and yields 6.7%, which is a better-than-average income return and as long-term growth prospects appear favorable, further retention is warranted.

Net income of Seaboard Finance Co. in the first half of the current fiscal year—the six months ended March 31, 1954 — amounted to $2,310,203, compared with $2,061,476 in the same period last year. Earnings per common share, after preferred dividends, were $1.12 on the average of 1,822,062 shares outstanding in the first half of this year, against $1.18 on the average of 1,536,930 shares outstanding in the first two quarters of the 1953 fiscal year. The lower earnings per share reflect the larger number of shares now outstanding, due to the conversion of the preferred stock. Potential dilution of the common stock had been reduced to only 8.1% on March 31, 1954, compared with 15.2% at the close of the 1953 fiscal year, and 38.7% on September 30, 1952.

Receivables outstanding on March 31, 1954, amount to $131,041,677. This was nearly $10 million higher than the total of $121,446,093 on the same date last year, but lower than the levels of September 30th and December 31, 1953. The company's business volume declined during the first half of the fiscal year, but this was partially offset by the fact that loans are remaining on the books longer than was the case last year. This indicates a return to the more normal conditions of prewar years. Volume of business in the six months ended March 31st last, was $96,735,232, compared with $106,377,655 in the first half of the preceding year. Net income in this year's second quarter, the three months ended March 31st, amounted to $1,139,788, equal after preferred dividends to 54c a share on the average of 1,867,421 common shares outstanding. This compares with $1,038,411, or 59c a share on the average of 1,584,018 shares outstanding in the corresponding quarter last year.

Dividends in 1953 totaled $1.80 per share and 45c quarterly is the current rate.

W. A. Sheaffer Pen Company

"I understand that W. A. Sheaffer Pen Co. has diversified its operations somewhat by entering into the tool and die field. Is this correct? Please submit recent sales volume and net income of the company."

T. P., Pittsfield, Mass.

After 41 years of concentration on the production and sales of writing equipment only, with the exception of war production under Government contract, W. A. Sheaffer Pen Co. in 1953 went into a new field of business with establishment of a tool and die division. Operating in a new $1,500,000 plant at Fort Madison, the division supplies tool and die work to customers throughout the country, in addition to the parent company.

Net sales of W. A. Sheaffer Pen Co. for the fiscal year ended February 28, 1954 were $25,161,532. Net income increased 16.5% over the preceding year. It rose to $2,252,942, equal to $2.75 per share, from $1,933,144, or $2.35 per share. Sales for fiscal year 1953 were 8.5% greater than in the preceding year. A strong sales pickup in the second half, stimulated by growing demand for the company's fountain pens more than offset a first half decrease.

Dividends including extras totaled $1.80 a share in 1953 and $1.00 including extras, has been paid thus far in the current year. Prospects for the company over coming months appear satisfactory.

Lionel Corporation

"With the Lionel Corp. entering into the camera and accessories fields besides its regular electric toy train business, I would be interested in knowing how the company has fared. Please include sales volume, net earnings and dividends."

E. F., New Haven, Conn.

Lionel Corp. has been operating for 54 years principally in the toy electric train field, but in recent years it has expanded into other lines. Profits and inventories were consolidated with those of its wholly-owned subsidiaries, the Airex Companies, the nation's largest manufacturers of spinning-type fishing tackle, and the newly-formed Linex Corp., manufacturers of stereo color cameras and accessories.

Net sales for the fiscal year ended February 28, 1954, amounted to $32,975,506 with a net income of $1,874,473 after taxes and all charges. Net earnings equaled $2.60 per share on outstanding capital stock. Dividends paid equaled $1.25 per share.

Consolidated net sales for the previous fiscal year ending February 28th, 1953, amounted to $28,159,463, with net income of $1,561,890 after taxes and all charges. Net earnings for this period amounted to $2.17 per share and the outstanding capital stock with dividends paid per share amounting to $1.25. Unfilled orders as of May 1, 1954, plus shipments to that date, aggregated approximately $20,183,000. During the fiscal year 1953, Lionel expanded its line with new toy diesel and steam-type locomotives, freight and passenger cars and operating accessories. In December, 1953, Lionel launched on the market a new three-dimensional color camera, the Linex, selling in the popular price field. All parts except the camera's color-corrected lenses are being manufactured by the new Linex Division at Lionel's Irvington, N. J. plant.

The regular quarterly dividend of 20c per share has been supplemented by a 15c extra thus far this year. The shares at current market provide a satisfactory income return. — END

Natural versus Synthetic Materials

The striking differences in price behavior between prices of natural materials and prices of the synthetic materials that compete with them are a form of the raw materials-fabricated products contrast. These differences are largely due to two factors: first, the synthetics have had more processing than the natural materials; and, second, the natural materials—especially if they are of agricultural origin—are produced under quite different conditions of supply.

This second factor can be illustrated by comparing the conditions governing the supply of, for example, cotton and rayon. As a field crop, the supply of domestic cotton is subject to all of the decisions made with regard to the planting, care, harvesting, and marketing of cotton by several hundred thousand independent farmers as well as being subject to the uncertainties of the weather and of plant diseases and insect damage—not to mention the possibility of Government controls. The supply of domestic rayon, on the other hand, comes from a comparatively small number of manufacturing establishments; the 1947 Census reported 38 establishments producing synthetic fibers. Hence the current supply of rayon can obviously be much more readily adjusted to current demand than cotton.

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Does Our $700 Billion Debt Create an Economic Threat?

(*Continued from page* 385)

billion of federal securities, and $15 billion of guaranteed obligations issued by agencies of the federal government. This is about 16 times its obligations in 1929, and seven times its obligations in 1940. However, the tax revenues of the federal government, which in the last analysis support the debt structure, have grown as rapidly as the debt since 1929; since 1940 they have grown several times faster than the debt. It is one of the paradoxes of federal financial history that as a proportion of its income, the relative burden of the debt has shrunk, rather than risen, at the very times when the absolute amount of the debt itself was rising. The relative burden was highest in 1932, when depression had sharply curtailed tax revenues. It declined during the later thirties, as the recovery in tax revenues was more rapid than the rise in the debt. The burden then rose during the prodigious borrowing of the war years, but declined again in the postwar boom. By all historical records, the burden is not now excessive, in the sense that debt service is not now taking an historically high proportion of the federal income. (It is of course true that the relative burden would rise as the federal government's revenue is reduced by tax rate reductions. Thus, it could well be argued that the only reason the debt burden does not seem high is that tax rates have had to be raised to a burdensome level. This illustrates a danger in discussions of public debt: the debt cannot be treated apart from other aspects of federal fiscal policy.)

Debt of the States

State debt is now about four times its 1929 level, 2½ times its 1940 level, and about four times its 1945 level. Between 1929 and 1940, the rise in state revenues more than kept pace with the rise in state obligations. Again, between 1940 and 1945 state debt and state revenues contracted together. Since 1945, however, the increase in debt has clearly outstripped the increase in state incomes. This is both a cause and a reflection of the increasing fiscal pressure which has arisen in state capitals, in part because of the necessity of catching up on state facilities which could not be built during the war years. It remains true that while the debt position of state governments is still entirely sound, the rate of growth of state obligations—together with the fact that state responsibilities are growing rather than contracting—suggests that over the next decade the fiscal and tax policies of state will be subjected to searching reexamination. The same conclusion is suggested by the increasing practice of creating state bodies such as highway authorities and commissions, the issuance of securities by these bodies, and the widespread recourse of states to revenue-type bond issues.

At the local government level, the same problem of the balance of obligations against income, is becoming increasingly acute, again because the obligations of local governmental bodies have been multiplied by the problems of expanding population and rising demands for services. Between 1929 and 1945, local government debt showed little change, and tax revenues were likewise unchanged. Increasingly since 1945, however, there has been a tendency toward an accelerated borrowing program by small local governments, and local tax incomes have kept pace with local debt only by a constantly rising curve of local tax levies.

Since 1945, total outstanding indebtedness of local governments has risen from about $14 billion to about $26 billion, and the debt is now rising at about 10% per year. County governments have contributed only little to this growth; the bulk of it is in city and town governments, whose debt has grown from about $8.5 billion in 1945 to about $14 billion now, and in school district indebtedness, which has risen sharply, from less than $1.5 billion in 1945 to over $5 billion now. School district debt, reflecting as it does the rolling wave of the postwar baby boom, will inevitably rise rapidly over the next decade; a doubling of the present debt seems likely by 1956, and another doubling by 1960.

So-called "special districts" have also contributed heavily to the growth of local debt. These districts, which are concerned with water supply, sewage disposal, etc., have continued to multiply rapidly as a consequence of the suburanization of the U. S. population over the past ten years. Here too, debt is likely to continue to rise for the next several years. Partly because of the character of most local government in this country, the tax rates applied by these governments are likely to rise with the debt, and it may be several years before these rates reach such a level as to be an effective deterrent against home ownership (the bulk of local taxation is on residential property). Accordingly, and barring any serious recession in incomes, the financing of local debt, however burdensome it may be for local homeowners, is not likely to assume the character of an important national problem for at least several more years.

Corporate Debt

At the end of 1945, corporate debt (the total of long-term and short-term obligations) was somewhat less than in 1929. Since 1945, however, long-term debt has about doubled, and short-term debt has increased about 120%. During most of the postwar period, interest rates on debt were attractively low, while securities prices were unattractively low, and corporations financed a disproportionate share of their postwar expansion through debt instruments rather than through recourse to equities markets. As a result, the burden of corporate debt has increased sharply. But relative to prewar years the relationship of corporate debt to corporate earnings is still favorable; that is, a relatively small proportion of corporate earnings is going to interest payments. In fact, the proportion of equity to borrowed capital in the average American corporation is still higher than it was in 1929 and 1939, and the relation of debt to working capital is still relatively low.

However, the *rate of growth* of corporate debt in the postwar period has been clearly excessive, and cannot be expected to continue indefinitely. There are a number of indications that recourse to debt has already begun to slow, partly because the postwar expansion surge is slowing, partly because depreciation allowances are now providing a much augmented flow of cash, and partly because higher equity values and rising interest rates have tended to make equity financing more attractive, relative to debt

financing, than in any year of the postwar period. This segment of the total debt, which now accounts for about 30% of it, is not likely to rise rapidly, and possibly only very slightly, over the next several years.

Individual Debt

Debts held by individuals and unincorporated business ventures (including farms) now account for about $155 billion of the $690 billion total of public and private obligations. This is fully three times the individual debt level of 1945. But here too the conclusion must be that while the rate of growth in individual debt has been excessively rapid in the postwar years, the total is not out of proportion, as yet, with the incomes from which payments on the debt must be made. It is particularly noteworthy that in 1945, total individual obligations amounted to much less than in 1929, despite the intervening war boom and inflation. While these debts are now about double their 1929 levels, personal incomes have about tripled in the past quarter century.

The total of individual debt may be classified into six main subgroups. In terms of size, nonfarm mortgage debt is the largest singe component, and now accounts for well over half of the total. Mortgage debt has increased at an extreme rate during the postwar years, and is now more than three times its 1945 level. This reflects, of course, the postwar peaks of homebuilding activity, and the relatively easy mortgage-money market which has prevailed throughout recent years. The level of the debt is imposing, but it is not clearly out of line with historical experience, and it should be borne in mind that the almost universal appearance of amortization provisions in home mortgages today have tended to institutionalize the debt; that is, monthly payments have become a normal part of the homeowner's family budget, just as rent.

Consumer debt, the second largest of the sub-components of individual debt, is in much more equivocal condition. The total now stands at between $27 and $28 billion, the highest in history, fully five times higher than in 1945, and more than three times its level of 1940. Consumer debt was, of course, very low in 1945,

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Does Our $700 Billion Debt Create An Economic Threat

(*Continued from page* 423)

inasmuch as shortages of durables had inhibited the instalment loans which account for about 75% of all consumer debt. However, the rate of growth in postwar years has been so violent as to bring the total to the upper limit of the historical relationship of debt to income, even though personal income itself has been rising very sharply in the years since 1945. Repayment obligations on the debt now take a larger share of disposable income flowing to consumers than at any time on record.

It seems doubtful that consumer debt will expand much further, if any further, over the short term, and it is altogether possible that a relatively mild recession would find it contracting rapidly. (*The experience of the past nine months bears out this conclusion. It seems probable, in other words,*

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Current Position and Outlook For The Market's 36 Leading Stocks

(*Continued from page* 391)

Individual Position

After almost nine years of special market action, it is important to reappraise the position of individual leading stocks to see in which instances they appear to have over-run their actual and prospective earnings position. A glance at the table will show why this is necessary after the enormous gains which have taken place in many of these issues. It is also necessary to reexamine the position of the few laggards in this group in order to ascertain whether or not there is a possibility of regaining their former high market position.

For this purpose, we have separately commented on each of the 28 stocks in the table. Some general observations on the position of 8 other leading stocks which could not be included in the table for lack of space will be found below:

GOODYEAR TIRE: *Selling at about six times* 1953 *earnings. Goodyear is at approximately on a par with U. S. Rubber. Both issues marketwise are relatively cheaper than Goodrich which costs almost twice as much to buy per dollar of earnings but all three may be retained on a long term basis.*

MONTGOMERY WARD: *It costs about* 25% *less per dollar of earnings to buy Montgomery Ward than Sears, Roebuck, the difference largely accounted for by the higher valuation given Sear's management. Montgomery Ward now probably more attractive relatively, especially if management policies should change. Stock now selling at* 10 *times earnings.*

PROCTER & GAMBLE: *At nearly* 20 *times earnings, P & G is not cheap though company very strong in industry. Hold only for long term.*

PULLMAN: *Relatively low valuation,* 9.9 *times earnings due to cyclical nature of industry. Can be held for yield.*

REYNOLDS TOBACCO: *Somewhat higher market valuation per share of earnings* (12.1 *times*) *than in case of American Tobacco. Present appeal based on good yield rather than appreciation prospects. Hold.*

TEXAS CO.: *Strong oil investment; suitable for long-term retention but present low yield detracts from immediate market appeal.*

UNION PACIFIC: *Selling somewhat higher per share of earnings* (8.2 *times*) *than other sound rails, due to large investment portfolio. Can be held for long-term appreciation with stock split a possibility.*

U. S. RUBBER: (*See Goodyear.*)

In conclusion, it may be said that after their enormous postwar rise many leading stocks probably have finally reached a level where a resting point is indicated. This is reflected in their low yields, on average and, in many cases, a conspicuously high ratio of market price to earnings. Despite these conditions, most of the stocks listed should be retained on a long-term investment basis, especially by investors who have purchased them at materially lower prices in former years. For new buyers, it is suggested that a policy of "dollar-averaging" be adopted. This would enable investors to overcome the hazard of buying exclusively at current high prices, reserving some part of the capital for purchases when the market price of the desired issues has receded sufficiently.

This study has been confined exclusively to the leading stocks. It should not be construed from this, however, that such issues represent the totality of opportunities for income and appreciation. From time to time, opportunities may be found among other stocks which are emerging from the secondary groups. These are constantly reported in these pages.

—END

— In the Next Issue —
Commencing Our Mid-Year Dividend Re-Appraisals and Forecasts

U. S. Private Investments Abroad

(*Continued from page* 399)

therefore encourage and protect them; the other is the aggressive spirit of American enterprise.

Among the countries which welcome American investments two have a particularly favorable business climate: Venezuela and Holland.

"Of all Latin-American countries," says a recent report "Venezuela has been foremost in recognizing the immense benefits which foreign capital can bring to a still relatively underdeveloped country." From 1929 to 1950 direct American investments in Venezuela rose from $232.5 million to just short of $1 billion. Of this amount $855 million represents investments in oil. Venezuela is the world's second largest oil producer. Of Venezuela's public revenue 60% is derived from oil, and

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U. S. Private Investments Abroad

(*Continued from page 425*)

of its foreign exchange no less than 97%. Though the Venezuelan government has been adverse to granting new oil concessions since 1945 there are opportunities in the manufacture of many items. Aliens may own land virtually everywhere. They may engage in all forms of industry and commerce except coastwise shipping and inland air transport. Customs concessions are made for the importation of machinery and equipment. There is no ceiling on the remittance of dividends.

General Shoe Corporation owns factories in Peru, Mexico and Israel. Philco produces radio and TV sets in Canada, Mexico, Colombia, and Brazil. The Aluminum Company of America has invested over $20 million in a Panamanian steamship company. It extracts bauxite in Surinam and has secured a bauxite concession in the Dominican Republic. It owns a plant in Mexico. U. S. Steel will soon have invested about a quarter of a billion dollars in Venezuela, building a highway and railroad to Cerro Bolivar, dredging the Orinoco, and constructing docks, ports, oreboats and whole towns. Its object is the construction and shipment of iron ore, of which Cerro Bolivar contains 500 million tons, and the whole range four or five times as much. E. I. Dupont de Nemours has investments in Canada, Mexico, Chile, Argentina, and Brazil. After having opened its first store in Havana in 1942 Sears, Roebuck and Company now owns 24 stores in Latin American countries. Gillette Safety Razor Company has factories in France, Germany, Switzerland, Mexico, and Argentina. Procter and Gamble has plants in England, Cuba, Mexico, Venezuela, Peru, Indonesia, and the Philippines. The Ford Motor Company has manufacturing and assembly plants in England, Canada, Germany, Egypt, and Brazil. In the field of rubber production B. F. Goodrich has factories in six foreign countries; and Goodyear owns plants in England, Canada, Sweden, Australia, and several Latin-American countries. The United Fruit Company produces sugar, cocoa, palm oil and other items in the Caribbean area. (Guatemala has recently expropriated a large part of its land.) This list could be greatly extended.

Yet, if we want to develop our raw materials resources abroad in conformity with our rapidly growing needs, and help the backward nations in their struggle against poverty and unemployment our private investments abroad must be greatly and rapidly expanded. Excluding the amounts re-invested, American foreign investments in the 1946-1950 period have been less than 2.5% of gross private domestic investment, and less than 4% of the investment in domestic plant and equipment.

Tax Relief

Recent thought on this problem has turned to tax incentives. To quote a report prepared by the Chamber of Commerce of the United States on "U. S. incentives for private investment": "It is likely that private capital will flow abroad at an increased rate if foreign investment opportunities offer rates of return higher than domestic investments of comparable risk. In view of the many strong deterrents to foreign investment, an effective tax incentive must be one which increases substantially the profitability of such investment". The Chamber suggests the taxation of income of American corporations from permanent establishments in foreign countries at a rate of one-half of the regular corporate income tax rate; the deferral of U. S. income taxes on the income of foreign branches of domestic corporations until such income is remitted to the United States; allowance of accelerated amortization on new physical assets of such permanent establishments, and several other means of tax relief. President Eisenhower in his Message to the Congress of March 30, 1954 proposes less than that. On the basis of the Randall report he suggests among other measures that business income from foreign subsidiaries be taxed at a rate 14 percentage points lower than the regular

corporate rate; and that the definition of foreign taxes, which may be credited against the U. S. income tax, be broadened.

If these proposals should be accepted favorable results may be expected. But the greater part of the additional inducements needed should be offered not by the U. S. but by the countries which are short of foreign capital and are reluctant to admit that the essence of business is not charity but profit. —END

1954 Outlook for Natural Gas Industry

(*Continued from page* 403)

mated that the increased value of Panhandle's reserves is around $300 million or about 100 times the depreciated investment cost carried on the company's books. The same authority estimated that the gas utility industry as a whole could mark up the value of its reserves by about $1 billion. Both these estimates appear to be on the high side, however. Panhandle's future earning power is also difficult to estimate, particularly as the company plans a $67 million expansion program, but the FPC decision was undoubtedly favorable on balance, and the company's future prospects under its present aggressive management seem promising.

Colorado Interstate Gas, with its 3 trillion cf of gas reserves in the Panhandle Field (very large in relation to the company's operations) is perhaps the major beneficiary of the FPC decision. It will of course take some time for the results to work out in reported earnings. While the stock at 47½ would seem to be very high in relation to last year's earnings of only $1.45, some analysts estimate future earning power at several times the 1953 figure. Also, the company's investment in Colorado Oil & Gas accounts for about ten points of the present market price.

Another company which should be aided by the decision is Northern Natural Gas, although the benefits are more difficult to assess in this case because the company plans to have its producing subsidiary develop large additional gas reserves. Thus additional equity for the common stock will be developed even though this may not be reflected in share earnings.

Other companies include Equitable Gas, Peoples Gas Light & Coke, Mountain Fuel Supply, El Paso Natural Gas, etc. (El Paso will be aided only indirectly).

A few months ago the American Gas Association issued some forecasts covering the years 1954-6. It was estimated that the entire gas industry would spend the following amounts for construction:

	Millions
1952–Actual Expenditures	$1,067
1953–Estimated	1,409
1954–Forecast	1,057
1955–Forecast	770
1956–Forecast	741
Total Forecast for 1953-56	$3,977

Of the total expenditures estimated for 1953-56, new transmission facilities would account for 49%, distribution 35%, production and storage facilities 13%, and general expenditures 3%. The expansion program apparently reached a maximum in 1953 and will taper off to about half that level in 1955-6.

The Association estimated that by 1956 residential space-heating requirements would be 54% larger than in 1952 while the residential base load (for cooking, water heating, etc) is expected to gain 28%, and commercial demands 35%. The industrial firm demand should gain 39%, it was forecast, but interruptible sales to industry would increase only 17% since storage facilities would reduce the surplus amounts available in summer. Thus, the total demand is expected to be one-third larger and the heaviest peak day load would be 42% greater (these figures are based on the number of therms consumed, the unit of heating content).

The gas transmission stocks benefitted marketwise by the Panhandle decision, ten issues showing an average market gain of about 3% in the week after the decision—which probably would have been greater except for the irregularity in Panhandle referred to above. However, during the past year the transmission stocks have increased in price only about 12% compared with 38% for the gas distributing stocks and 16% for the electric power stocks. It appears likely that the pipe line stocks, which have been held back by poor earnings and rate uncertainties, may make a better showing in future.

—END

Stocks With Declining Dividend Margins

(*Continued from page* 405)

that produced by Island Creek. The quarterly dividend rate, cut from 50 cents to 37½ cents a share in 1953, was again reduced in the first quarter of this year with the declaration of a 25 cents a share payment. This rate should be maintained for awhile, but unless the expected improvement in sales and earnings materializes in the latter part of the year, management may have to consider the advisability of making another cut in dividend distributions.

MULLINS MANUFACTURING in reporting record net sales of $70.5 million last year reflected accelerated production on Government shell orders which accounted for a substantial part of the increase. Narrower profit margins and higher taxes, however, cut net earnings from $2.63 a share in 1952 to $2.44 a share. A poor 1954 first quarter resulted in a 29% drop in sales as compared to the first quarter of last year with net earnings amounting to 21 cents a share, a 65% decline from the 75 cents a share realized in the three months to March 31, a year ago. A slight upturn recorded in the final month of this year's first quarter is believed to have presaged a further improvement in the near-term with these prospects being brightened by the company's investment of close to $3 million in 1953 in plant and equipment, a substantial part of which being for its new commercial "Koldflo" process for the cold forming of bar steel. Based on this outlook, current dividend of 40 cents a share quarterly should be maintained.

PLYMOUTH OIL's decline in 1953 net to $3.32 a share from 1952 net of $3.97 a share reflects prorationing by the Texas Railroad Commission of Texas oil production, an action which has been attributed to increased oil imports. While these conditions are likely to prevail through the current year earnings for 1954 should be aided by increased natural gas sales from gas reserves that have been importantly expanded through Plymouth's exploratory and development program. Earnings for 1954 first quarter of 79 cents a share should be materially improved in subsequent months, thus assuring continuance of the current quarterly dividend of 40 cents a share.

STUDEBAKER CORP., after paying a dividend of 40 cents a share in the first quarter of the current year omitted the dividend that would have been due on June 2. The drastic decline in 1953 earnings to $1.14 a share from $6.06 a share earned in 1952, reflected generally lower volume of car buying as well as Studebaker's failure to capture its portion of the automobile market. Net sales of $72.4 million in the 1954 first quarter were down by $90 million from 1953 first quarter, and resulted in a net loss for the first three months of this year of $6.4 million. This is equal to a deficit of $2.72 a share for the outstanding stock. Second quarter results might be slightly better but prospects of dividend resumption are necessarily remote. —END

Investment Aspects of Insurance Stocks

(*Continued from page* 408)

income tending to fluctuate as a result of cyclical trends, a large measure of stability is injected into earnings by the substantial income the companies obtain from diversified investment portfolios. The 30 major stock companies had more than 80% of their total assets invested in income-producing securities at the 1953 year-end; 65% of their portfolios, on average, was invested in bonds, 8% in preferred stocks, and 27% in common stocks.

As in the selection of underwriting risks written, however, managements differ substantially on investment policy. For example, 52% of the securities of Continental Insurance were in the form of common stocks last year and only 44% were bond investments. Conversely, Standard Accident Insurance reported bond holdings at 91% of total investments, and common stocks represented only 8% of the portfolio. It must be noted, however, that investment policies are guided not only by managements' basic philosophies, but also by type of business written and adequacy of surplus accounts to finance increased writings.

The insurance companies listed received an average return of 3.14% (before taxes) on invested assets last year. Since, however, they had approximately $2.50 productively employed at this rate for every dollar represented by the market value of their stocks at recent prices, even this modest rate of return produced investment earnings of about 7.8% per annum on present insurance stock prices.

During the last decade, the total volume of fire and casualty business written by the stock insurance companies has more than tripled as a result of the inflationary cycle, the development of financial responsibility laws, the addition of real insurable wealth to the economy and other factors of varying import. Presently, the industry seems to be in a leveling off period premium-wise and for the first time in many years, sharp competition is coming to the fore.

The influx of direct-writing companies and mutuals seems to be developing into an enigma of major proportions for the stock companies. Basically, the problem is one of cost versus service. While the agency system that has been so well developed by the stock companies is a great service organization, many policyholders seem to be turning to the "cut rate" companies whose service is held to a minimum but where premium rates are lower. There are many partial solutions to the problem now being discussed by the industry, but until direct action is taken, no prediction can be made at this writing as to the final outcome of this situation.

Longer Term Prospects

The outlook for underwriting results of any particular company over the foreseeable future, as noted above, depends to substantial extent on the amount and type of each major risk written. Obviously, however, managerial ability and agency organizations combine to provide individual crosscurrents in the industry. Over a period of years, the peaks and valleys of loss experience on individual lines of business tend to average out and it is relatively simple to ascertain the best managements and the "blue chip" companies. Over the last 15 years, the average profit margin on all business of the 30 insurance companies noted has been 4.8% varying, however, from a profit of

(*Please turn to page* 430)

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Natural Versus Synthetic Materials

(*Continued from page* 421)

From the standpoint of a more prompt and accurate adjustment of supply to demand, therefore, the synthetic fiber should be, and is, more stable in price than the plant fiber.

The greater price stability of the synthetic material is also due in part to the fact that it has had more value added to it by manufacture than the natural material.

The greater price stability of synthetics as compared to natural materials is evident. The extreme divergence of crude natural rubber from crude synthetic rubber in 1950 and 1951 was due to the fact that it is entirely imported. Hence the amount available to American users and the price are settled in a world market and therefore subject to the greater uncertainties to which foreign supplies from distant sources are subject.

In many cases the natural materials have fluctuated more widely than the synthetics, silk yarns more than nylon yarns, cotton more than rayon both as fibers and also as yarns.

—Survey of Current Business

Stocks with Declining Dividend Margins

(*Continued from page* 428)

16.2% to a loss of 0.6% in individual situations.

The companies with the highest average profit margins over this long period, however, are not necessarily representative of the cheapest insurance stock investments at current prices. On the basis of these historic profit margins, present volume of business and current investment income, the estimated "average" earning power after taxes of each company has been computed and the price-earnings ratios noted. On average, the stocks of these 30 companies are presently capitalized at 12.4 times "average" earnings, with individual ratios varying from 8.2 to 17.5 times such "average" earning power.

Life Insurance Companies

After long years during which the investing public tended to ignore the profit possibilities of life insurance stocks, they have recently become tremendously popular and market action of the major life stocks available for investment has been truly phenomenal. The 15 securities listed have risen 67%, on average, from the lows of last year and are presently selling around five times the prices at which they were obtainable six years ago.

The extremely low cash dividends which currently provide an average yield of less than 1½% on current market prices seem to have been one of the primary reasons for lack of investor interest but, during the past several years, realization that the life insurance business is one of great growth industries of the nation has created substantial demand for these equities.

Life insurance in force at the end of 1953 amounted to $304.4 billion. Of this total, ordinary life insurance accounted for 61%, group insurance for 26% and industrial insurance for 13%. At the present time there are about 90 million policyholders in the United States with members of more than 75% of all family units owning some type of life insurance.

In terms of insurance in force, assets and income, the life insurance industry has at least doubled in size every decade since 1900 except for the ten-year period 1931-1940, when expansion continued but at a diminished rate. The vigorous development of the industry has been aided by social changes, the continued expansion of the economy resulting in a constantly higher standard of living, and the aggressive selling programs of the life insurance companies. There seems good reason to expect further substantial growth; in 1953, premiums received by all life insurance companies were but 3.6% of disposable personal income, as against a 25-year average of 4.6%, so that premium income of the industry would have to increase more than 25% to account for its proportionate share of disposable income.

The basic factors affecting the earning power of life insurance companies are: (1) death rates among policyholders and (2) interest earned on invested funds. The trend in the mortality rate has been downward for many years, the 1953 policyholder death rate having been 6.4 per 1,000, down 35% since 1915. Obviously, every increase in average life expectancy, every medical discovery which helps prolong life is of great importance to life insurance company earning power.

While the long-term trend of interest rates has been downward, the return of 3.36% (before taxes) on invested funds earned by all life insurance companies last year was the highest since 1942. Although rates have again turned lower during the last twelve months, premium charges for some time have been high enough to compensate for the present interest rate structure.

Since the cost of placing new business on the books is greater than the premium received in the first year of the life of a policy, earnings as reported by the companies in a period of expanding volume are always understated. As noted in the accompanying table, however, present prices are approximately 16 times reported 1953 earnings with a wide degree of divergence among individual situations.

In addition to the basic growth characteristics of the industry, a factor of extreme importance contributing to investor interest has been the tax-sheltered position of the life insurance companies. Because of the fiduciary nature of the industry, the Government has

seen fit to impose on it extremely low income taxes. Presently, the companies pay but 3¾% on the first $200,000 of net investment income and 6½% on the excess over $200,000. No income taxes are paid on underwriting earnings or capital gains. It must be noted, however, that the House Ways and Means Committee announced upon introduction of the recent Omnibus Tax Bill, that the present formula has been extended for one year only to provide time in which to work out a sound, long-range formula for the taxation of life insurance companies. It is felt that any basic changes made in the present tax law will substantially raise taxes. There is no doubt, however, that whatever adjustments are made, taxes on life insurance earnings will remain far below present corporate rates. —END

Today's Attractive Preferred Stocks

(*Continued from page* 409)

while others in the list are selling substantially under call prices. Two issues, namely, Chicago, Rock Island & Pacific and Crucible Steel carry conversion features, Rock Island preferred being convertible into one share of common, and Crucible preferred is convertible into 2.85 shares of common.

Space does not permit a comprehensive analysis of all 10 stocks making up this selection, but for the guidance of our readers we comment, although somewhat briefly, on the following issues:

Southern Railway's 5%, non-cumulative preferred ($50 par value) is steadily enhancing its investment stature. In the postwar years to the end of 1953, the road has invested over $216 million in capital expenditures for complete dieselization, mechanization of roadway maintenance and other improvements, while benefiting at the same time through substantial gains in traffic revenues largely from the broad industrial development in its territory. Since 1949 it has reduced its operating ratio from 78.2% to 67.7% in 1953, and for the latter year showed a transportation ratio of 30.7%, one of the lowest of the Class I roads. Earnings last year equal to 11.06 times preferred dividend requirements reflect Southern's improved earning capacity, and although 1954 net will likely fall short of this mark indicated continued good net provides more than adequate protection for the preferred dividend. To the good yield of 5.7% should be added the potential of price appreciation.

Jones & Laughlin Steel Corp., has demonstrated substantial earning power for its relatively small preferred stock capitalization, covering the $5 annual dividend 13.27 times in 1952 and by 21.13 times in 1953. By changing over from the production of heavy to light steels it has greatly improved its basic position in the industry, spending for this purpose approximately $500 million, through 1954, including new tin and bar mills, and other facilities of greatly increased efficiency. A large portion of these new facilities is covered by certificates of necessity permitting rapid amortization for tax purposes. While the 1954 operating rate will probably fall below that of 1953, preferred dividend coverage should come close to equaling the 1952 showing for this good grade issue selling to yield 5.6%.

Worthington Corp., is one of the foremost manufacturers of a wide range of heavy machinery used largely by the oil and natural gas industries, public utilities, chemical plants and public works. Its good earnings record over a period of the last 13 years established an all-time peak for 1953 with net available for preferred dividends equal to 12.94 times annual requirements. This compares with 11.88 times 1952 preferred dividend needs, and 10.21 times for 1951. An important Worthington division manufactures industrial air conditioning equipment which is expected to operate at a high rate through the current year and along with good sales volume in its other fields is likely to produce net earnings equal to those of 1953. Current yield of 5.2% on this preferred is an attractive return, considering the issue's good quality. —END

Stocks With Tax Advantages

(*Continued from page* 411)

a share, although dividends paid to holders of the certificates totaled $2.50, 55 cents of which was derived from ore depletion. This latter sum was considered a return of capital and therefore held to be income tax exempt.

The year 1953 was a particularly profitable one for Great Northern Iron Ore, its net of $2.00 a share reflecting increased royalties from heavier than usual mining operations on its properties. Annual dividends by the trust have been relatively stable during the last 18 years, although the amount of annual distribution considered tax-free will, as in the past, vary from year to year. Current yield of 11.6 per cent reflects uncertainty of maintenance of total dividend payments at the 1953 rate.

Other media through which tax advantages can be had are the shares of certain investment trusts. These may be the general management type of investment trust or those of the open-end type that have elected to come under the provisions of the Federal Investment Company Act. Under this law, such companies are permitted to distinguish between income in the form of interest and dividends paid on securities in their portfolios and profits from the sale of securities. Where such profits are realized and paid out to the holders of the trust shares along with a distribution of income, the issuing company will indicate the percentage or amount representing profit from sale of securities, enabling the recipient to regard that portion as a long-term capital gain regardless of when the trust shares were purchased.

A good example of such tax benefits is found in the record of the *Lehman Corp.*, a closed-end investment trust whose shareowners have enjoyed income tax relief on dividends paid out by the company over a period of years. The Lehman Corp., as a "regulated" company is not subject to payments of income or capital gains taxes. These are the liabilities of the shareowners, based on the amount and designation of dividends in each year. For instance, the company paid out in 1953, after giving effect to 2-for-1 stock split, a total of $2.02 a share in dividends. Of this amount $1.04 represented capital gains exempt from income tax but subject to the capital gains tax. Of course, it is not possible to determine in advance whether any investment trust will be able to realize profits from sale of securities in its portfolio in any given period but Lehman Corp., has a long record of comparative success in this regard. Out of total dividends paid since 1945

(*Please turn to page* 432)

Stocks with Tax Advantages

(*Continued from page* 431)

(before adjusting to 1953 stock split) totaling $40.83 a share, $23.79 a share represented distributions paid from realized capital gains, subject only to the capital gains tax.

As we have already pointed out there is no rigid rule by which one can predetermine the amount of tax-free dividend that will be paid by a company in any one year. In some cases, the creation of the tax free advantage may be due to non-recurrent circumstances or conditions that are subject to change from one year to the next. In appraising yields and prices, however, of some of the issues in the wholly or partially tax-exempt groups, the prospects of some tax advantages deserves careful weighing. —END

Does Our $700 Billion Debt Create an Economic Threat?

(*Continued from page* 424)

that the great postwar boom in consumer credit has now reached an end, and further growth of the total will occur only to the extent that the durables markets in which consumer credit is used will grow over the next decade.)

The Farmer and Debt

Farm mortgage debt, one of the components of individual debt, is markedly lower, in relation to farm incomes and equities, than in any postwar year on record, even though the debt has about doubled since 1945. In fact, the total volume of farm mortgage debt, in dollars, is still below 1929, while farm incomes have multiplied. However, production loans to farmers by commercial banks (as distinguished from CCC loans, which are on stored crops) have increased fourfold since 1945, and are much larger, even in relation to income, than in any year on record. In aggregate, the farm debt situation is entirely within control; it is, in fact, one of the more favorable aspects of the current farm situation.

The remaining components of personal debt – commercial borrowings of unincorporated enterprises other than farms, borrowings from financial intermediaries for carrying securities, customers' debts to brokers, and debt owed to life insurance companies by policyholders—have in the aggregate shown only moderate growth in the postwar years. Notably, debts in relation to speculative activities in securities and commodities exchanges have hardly grown at all, and are substantially below their levels of 1929 or 1937, two years of high speculative activity.

With the components of the $690 billion debt broken out, a number of conclusions appear justified. In the first place, as far as the security and health of the total business system is concerned, the debt structure does not seem to present a clear imminent danger. In the case of consumer debt, corporate debt and some components of state and local obligations, something very like a practical debt limit may have been reached, but there is no indication that it has been surpassed. The prognosis in these instances seems to be slower growth, in the case of consumer debt, and higher tax incomes, in the case of state and local borrowings. The federal debt, gargantuan though it may be, is at least adequately supported by current federal revenues.

To this favorable report on debt, two qualifications should be added. In the first place, the rate of growth of virtually all components of the debt (the major exception being the federal debt) has been exceedingly rapid since 1945, and comparable growth cannot be expected over the next decade. Since debt incurrence played an important role in the postwar boom, it is worth bearing in mind that this major stimulant will not be so abundantly present in the future.

Secondly, debt is by definition a fixed legal obligation which does not alter with the business cycle. While the relationships of debt to incomes in the several sectors described above are not historically high, they could become so quickly if incomes were to recede sharply in a major recession. This was less true in 1950, before the last great wave of debt incurrence associated with hostilities in Korea. It is true enough now, and relevant enough, to suggest that in the next recession, debt will resume its historical role as an aggravater of business cycle downturns. —END

As I See It!

(*Continued from page* 381)

interests notwithstanding that not the slightest support is being given to American world policy.

It may be said that the neutral attitude of the British, even more than French weakness, was responsible for undermining our position at Geneva. This is also in line with their vacillating attitude on the European Defense Community, a cardinal plank in the global structure which we have been painfully trying to erect against communist imperialism and aggression.

After having spent some $40 billion in aid to our allies, at a great sacrifice to the American taxpayer, it is time that we make some demands on our own account. With Mr. Churchill in Washington, this would be a good time to do it. The President should make it clear that the American people are losing their patience with British opposition to our basic—and what should be our mutual – strategic policies, and that we expect the British to cooperate with us wholeheartedly, as allies should — END

BOOK REVIEW

THE TECHNIQUE OF HANDLING PEOPLE

By DONALD A. and ELEANOR C. LAIRD

Here is a book to help the average person achieve better human relations with others. Originating from talks to supervisors and executives, salespeople and teachers. *The Technique of Handling People* is for everyone seeking self-improvement in business and everyday life. Eleven practical rules show you how to deal with people successfully, and numerous human-interest examples illustrate how these techniques can be applied. Based on modern psychology and business practices, these techniques of handling people have been usd by those who have conquered obstacles and risen to the top in their particular careers.

The revised edition of this book has been brought up to date with numerous changes, a new first chapter, and many graphic cartoons.

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